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THE CONCEPTS OF STATIC AND DYNAMIC EQUILIBRIA IN THE GENERAL THEORY OF VALUE

BY

J. K. MEHTA

University of Allahabad

Attempts have been made during the past few years to formulate a general theory of value which may be applicable to cases of competition, imperfect competition and monopoly alike, irrespective of the fact whether they relate to a short period, a long period or a very long period or whether they are concerned with commodities and services or money in a domestic or international market. Some of the important concepts which have enabled us to formulate, thus, a general theory of value are, as is well known to students of economic theory, those of marginal revenue (replacing that of price), the marginal cost of production (as distinguished from marginal cost of manufacture or sale), marginal rate of substitution (in place of the more easily understood concept of marginal utility),

comparative cost[1] (instead of absolute cost) and expectations of supply and demand (instead of actual supply and demand). With the help of these concepts it has been found possible to unify and co-ordinate the hitherto different theories of value of commodities, services and money (relating to cases of competition, monopoly, imperfect competition, domestic trade, inter-regional trade, etc.) into one general theory of a very fundamental nature.

As it naturally must be, the usual statement of the theory of value is much too vague for a clear understanding of the price doctrine. Thus, for instance, when it is said that in equilibrium price equals the cost of production one does not know whether by equilibrium is meant static equilibrium or dynamic equilibrium, or again whether reference is made to a short period or a long period. Nor is it clear whether price means the price of each and every firm or of a particular firm, say, for instance, the representation firm. Even the word cost is capable of so many interpretations that one does not know whether by it is meant marginal, average or total cost, or if either of the last two, whether it is prime cost, supplementary cost or aggregate cost. Thus the statement in regard to price is capable of assuming one out of a large number of meanings; for, we can have a large number of combinations out of the several meanings of the terms price, equilibrium, period and cost.

The object of this paper is to remove to some extent all these complications by defining precisely the words static and dynamic equilibria. While that is the main object, the paper will incidentally clarify the meanings of some other basic terms such as, "equilibrium," "short period," "long period," "profit" and "rent."

A production unit is said to be in equilibrium when it shows no tendency to expansion or contraction within the period of time under consideration. We cannot talk of equilibrium without referring our case to a period of time. The period may, in limiting cases, contract to a point (of

[1]It may be noted here that it is not possible to have any conception of absolute cost, just as it is not possible to have any conception of absolute utility. Cost and utility are again related—cost being displaced utility. The classical concept of real cost is also a relative one. Real cost, since it is measured in terms of human sacrifices, would appear to be absolute. But as even sacrifices are only comparable and not capable of absolute measurement, it is not correct to maintain that real costs are absolute.

time) or extend to eternity. In the former case all situations of necessity become positions of equilibrium. In the latter, as we shall see later, equilibrium and static equilibrium become identical terms.

By a production unit we mean either a firm or an industry.[2] Expansion of a firm is defined by the flow of resources into the firm, while that of an industry is defined by the flow of resources into the industry. So far as the factor labour is concerned the expansion of a firm involves inter-firmal transfer of labourers, while the expansion of an industry involves inter-industrial transfer.

A state of equilibrium thus being defined in terms of non-expansion and non-contraction within the period of time under consideration, we can distinguish between static and dynamic equilibria. Static equilibrium is that equilibrium which maintains itself outside the period of time under consideration.[3] Thus, an industry that is in equilibrium on a particular day would constitute a case of static equilibrium only when it is known that the industry is going to maintain itself in equilibrium in the future.

Thus equilibrium referred to a day may be static equilibrium with reference to a number of days. In other words, we cannot talk of static equilibrium without reference to a *period of time*. We cannot talk merely in terms of eternity. The conception of static equilibrium is a function of time just as the conception of equilibrium itself is. The difference however consists in the fact that whereas equilibrium has reference to *a* period of time, static equilibrium has necessarily reference to *periods* of time. What is equilibrium with reference to a given period is, therefore, static equilibrium with reference to that period when considered as composed of two or more small periods of time.

[2]We have here used the popular terms firm and industry without defining them, for we do not wish to go into the difficult question of the precise meanings of these terms. It is possible however to ignore this difficulty without jeopardising the validity of our theory or hampering its clear understanding.

[3]During the currency of the period equilibrium can be called static if it is expected to continue or maintain itself beyond that period. Such expectation would be dependent on our knowledge of the forces of demand and supply. On the termination of the period it can be verified whether the equilibrium which was judged to be static is really so. The static state of an equilibrium can be judged therefore by its comparison with the future (not the present).

In a stationary state (which is defined by fixity of consumers' preferences, technique and resources) equilibrium requires the equation of demand and supply. Since demand is fixed and conditions on the side of supply are also constant, all that is needed to bring about equilibrium is an adjustment of supply to demand on the basis of the knowledge of things as they are. Where knowledge is perfect the adjustment is possible at once, and there is no *process* of adjustment by the method of trial and error. In a stationary state therefore, knowledge being assumed perfect, equilibrium is always there, and it is wrong to argue that it is brought about in the long period. This takes us to the consideration of short and long periods.

A long period is defined as the period of time that is required by a production unit to complete all the adjustments that are necessitated by the forces acting on it at *any given time.* All periods of time, of duration shorter than this, would be called short periods. This of course does not mean that there is no equilibrium in a short period. So long as the production unit does not expand or contract within that short period it is, by definition, in equilibrium. In the short period there is equilibrium in the sense that no further adjustments are possible within that period and all adjustments that could be made have already been completed. In a short period then there is equilibrium which arithmetically is defined by the equality of marginal revenue with short period marginal cost (in case of perfect competition we can substitute the word price for marginal revenue). Geometrically it is defined by the point of intersection of the marginal revenue or price curve (as the case may be) and the marginal cost of production curve referred to the period under consideration. The marginal cost curve in the case of a short period is one that would change outside that period.[4]

Every period, whatever its length may be, has its own marginal cost curve ; and the production unit always equalises its marginal revenue with the marginal cost. But in the short period as defined by us above, since all necessary adjustments have not been completed, the cost

[4]It is often erroneously stated that in the short period demand and supply are not equal and that threfore the price is not determined by the equality of marginal revenue and marginal cost. As a matter of fact, price is, even in a short period, determined by the intersection of marginal revenue and marginal cost curves. Each period has its own appropriate marginal cost curve and price is always determined by the point where it meets the marginal revenue curve.

is determined by only those adjustments which have been completed during that short period. Outside that period some more adjustments are made so that in the long period, as defined above, all possible adjustments are completed and the cost becomes different from and lower than what it was in the short period.

It will be clear now that equilibrium in a short period is necessarily dynamic whereas in the long period it *may* be static equilibrium. Short period equilibrium cannot maintain itself outside the period (for by definition some further adjustments would be made outside the period) and is therefore not static equilibrium. Long period equilibrium can maintain itself outside the period concerned provided no further change takes place, in the meantime, in the forces acting on a production unit. If a month was required to enable the unit to complete all the adjustments necessitated by these forces we would say that one month was a long period. The implications would be that provided no further change was to take place in these forces the equilibrium that would be reached at the end of a month would maintain itself thereafter. Thus, the equilibrium conceived of in the long period may be static equilibrium though it need not necessarily be so. But the short period equilibrium is necessarily not static.

In a stationary state long period equilibrium would be static. And given perfect knowledge, as we have said above, the equilibrium would of necessity be static. Thus there would be no short period equilibrium in a stationary state characterised by perfect knowledge. The distinction between short and long periods is, therefore, meaningful only in the case of a dynamic state.

We began by saying that in a stationary state equilibrium is attained (given perfect knowledge) at once by the adjustment of supply and demand. How is equilibrium attained in a dynamic state ? In such a state, since forces are continuously changing, the technique of stationary state, it would seem, would not be applicable to the determination of price. It may however be pointed out that equilibrium would take place *at any given time*, though it would be upset at the next moment and new equilibrium re-established. For, *at any moment of time*, the preferences of consumers, resources and technique are fixed, so that supply can be adjusted to demand in the same way in which it is done in the case of a stationary state.

To this however it might be objected that even at a moment of time equilibrium is not possible, for though the demand, resources and technique can be assumed to be fixed, it is not on these that equilibrium would depend, but on what they would be in the future. Thus, it may be maintained, one cannot proceed on the basis of what is and has to proceed on that of what would be in the future—a list of changing forces.

This however does not prove that the technique of stationary state is not applicable to the determination of the position of equilibrium in a dynamic state. For though our calculations are based on future prices and future resources which are necessarily in a process of change, the expectations of the future are themselves constant. Hence the analysis of static equilibrium can be applied to the case of a dynamic state by bringing into our analysis the factor of "expectations" of future changes. This expectation, may it be noted, is a fixed factor and relates to the present. Equilibrium, then, in a dynamic state is brought about by the adjustment of supply to demand; the only difference being that in this case the supply and demand are influenced by the (constant) expectation of changing future forces.

It is thus possible to apply our technique of stationary state and determine the position of equilibrium at every point of time when dealing with the case of dynamic state. This equilibrium, as explained above, is dynamic equilibrium, as it does not maintain itself outside the period of time under consideration. But the moment the equilibrium is upset it is re-established. Thus there is some position of equilibrium at every moment of time"[5]; and disequilibrium exists in the only sense that at every moment of time there is difference between the price that rules and the price that was expected to rule. In a static state such a difference does not exist; for, the future being the same as the present, expected price is the same as the actual.

The static equilibrium price yields no profit, but the price in dynamic equilibrium does contain a profit element.

[5] A firm or an industry is therefore never in disequilibrium; it is always in equilibrium, though in the real world that equilibrium is dynamic. This way of understanding equilibrium is not only in itself correct, but it also harmonises with the mathematical explanation of price as being determined by the intersection of demand and supply curves in all cases. The point of intersection connotes equilibrium; for it is there that the two opposing forces balance each other.

In the former case, price equals marginal and average costs; in the latter only marginal cost.[6] In each case equilibrium is defined by the absence of the tendency to expansion or contraction of the production unit. Dynamic equilibrium is necessarily a momentary one. At any moment of time marginal cost is equated to price and that puts an end to further adjustment of output *for the time being.*

We can say then that in a dynamic state there is equilibrium *at* any given time but not *over* time. It is for this reason that the price or marginal revenue is not equal to the long-period marginal cost. Yet the technique of static state is applicable, for at any given time the factors to be reckoned with are fixed and the influence of changing future is also constant as it works through a definite and constant expression of anticipations. As in the case of stationary state so also in the case of dynamic state the producer acts so as to exploit the situation to maximum advantage at every moment. This he does by equating marginal cost to marginal revenue.

We have already said that the distinction between short and long period is germane to the case of dynamic equilibrium only. For, in a static state the division of time into periods is of no significance whatsoever, as there is equilibrium at all times and the adjustments that are associated with the long period are permanently made. It is the changes in the supply and demand of the dynamic state that necessitate changes of output on the part of the producers and of consumption on the part of the consumers. And changes in output require time. In a short period the change is made in one way (the more costly way) while in the long period it is made in another way. It is these changes therefore that make it necessary to distinguish periods according as they are small or big.

We may now study the relation of static and dynamic states to profit. Profit, whether it is understood as the

[6]Here our statements are predicated of perfect competition. In a static state in perfect competition the firm and industry are both in equilibrium and hence there is no profit. In a dynamic state the firm is but the industry is not in equilibrium and hence there is an element of profit. Profit is understood as the remuneration for risk-taking. All this is true of imperfect competition also with the only difference that the marginal cost equals marginal revenue instead of price. In the case of monopoly it is likewise true that static equilibrium price yields no profit. But even then the price is higher than average cost, the difference being rent of monopoly. For the difference between profit and rent, see the concluding paragraphs of the text.

remuneration for risk-taking or as accidental and unexpected gain, does not exist in the stationary state.[7] It is only when we assume knowledge to be imperfect that profit can be said to exist in the short period. The distinction between short and long period has meaning in the case of a stationary state only when knowledge is assumed to be imperfect. But what would a short period mean in a stationary state? It would only mean the period of transition from a dynamic to a stationary state. Its duration would be very small; for, however imperfect human knowledge may be it becomes perfect knowledge when conditions remain stable and do not change at all. The knowledge here referred to is the knowledge of the future; and in a stationary state the future is just the same as the present. Hence, imperfection can exist only during the period of transition from the dynamic to the static state.

There would therefore be no risks and hence no profits nor accidental gains and losses in a stationary state. In a dynamic state there, of course, is profit. In the short period the price is equal to marginal cost (perfect competition) but not to average cost. Hence there is accidental gain or loss. The uncertainty caused by such a state makes risk-taking necessary and therefore in a dynamic state in the short period profit exists as the necessary remuneration for risk-taking. In the long period the price may be equal to the average cost provided during the time that the production unit takes to complete all its adjustments no fresh changes take place. This is not possible, however, in a dynamic world and therefore even in the long run the price is not equal to average cost. Risk is therefore attached to production making profit, the remuneration of the entrepreneur, a necessary element in the cost of production. While the entrepreneur thus always earns profit he may besides this profit sometimes secure an accidental gain or suffer an accidental loss.

In a dynamic state long period price is only a mental figure. It is the price that would rule when all the adjustments necessitated by the known changes acting on the production unit were completed and no further changes

[7] Profit should be understood as the remuneration for risk-taking. For, it is only when it is thus understood that it is always positive, in the dynamic world. Profit thus becomes an element of cost. If there is an accidental gain it should be called an accidental surplus and all unexpected losses should be called accidental deficits.

were to take place. But such a price is never attained in practice. For, before such adjustments are completed fresh changes take place.

It remains now to throw some light on the precise difference between (accidental) profit and rent. For the one difference between static and dynamic economy is that whereas in the former there is rent, in the latter there is profit also. Rent and profit both belong to the genus surplus. Both these incomes mathematically are differences between income and cost and, therefore, of the nature of surplus. The differentiating factor however is that profit-surplus arises due to our inability to foresee the future correctly. It is due to uncertainty about the future. Rent, on the other hand, is a known and expected surplus. A monopolist's pure monopoly revenue is a rent-surplus when he equalises his marginal cost with marginal revenue on the basis of his knowledge of facts which turn out to be correct. But a producer, be he a monopolist or not, makes a profit-surplus when the income that he actually gets turns out to be greater than what he had expected it to be. From the psychological point of view, then the difference between rent and profit is clear enough. Any surplus above cost is rent or profit according as it is one that was foreseen and expected or unforeseen and unexpected. With knowledge of the future perfect (that is in the absence of uncertainty) all surpluses howsoever earned would be expected surpluses and therefore rent in the true economic sense. Profits, therefore, tend to disappear with the growth of our telescopic faculty. Just as imperfect foresight may cause accidental profits, so also it may cause accidental losses. There is no counterpart of accidental losses of dynamic economy in a static economy. For, in a stationary economy there is no possibility of making mistakes and therefore no possibility also of incurring losses.

In another way the difference between rent and profit can be expressed thus. Rent can be obtained[9] by every

[8]As we have said above the word profit should be used in the sense of the remuneration of the entrepreneur, but we have used it here in the sense of accidental gain only to bring out by comparison with the word rent its true character as a surplus.

[9]We have used the word "obtained" in preference to the word "earned" for the reason that a surplus is not in the strict sense of the word earned. A surplus is an unearned income. However, we have elsewhere in the text and footnotes used the word "earned" instead of "obtained" so that the sentence may sound better.

factor in its capacity as land, *i.e.*, rent accrues to a fflctor by virtue of the fact that it has land aspect. Proat is received by a factor in its capacity as entrepreneur, or to be more correct in its capacity as a contractor.[10]

[10]Profit as the remuneration for risk-taking is earned by a factor in its capacity as an entrepreneur, but as an accidental surplus it is earned by a factor in its capacity as a contractor. Because you take risk you get profit; because you contract with hired factors you get accidental gain (or equally likely incur an unexpected loss).

ON THE CONCEPTION OF COLLECTIVE WANTS

BY

PARIMAL ROY, M.A.

Lecturer in Economics, Dacca University

In his *First Principles of Public Finance* Antonio de Viti de Marco remarks as follows:

> "What may be called Private Economics studies the activities of the individual, in so far as they are directed toward the satisfaction of individual wants. What may be called Public Economics, or the Economics of Public Finance, studies the productive activities of the State, which are directed toward the satisfaction of collective wants "[1]

In this paper an attempt will be made to examine how far it is possible to distinguish—as De Viti does—between individual and collective wants, so as to provide an autonomous basis for the economic activities of the State.

De Viti makes the following distinctions.

Collective wants presuppose the existence of a community, and they arise from the fact that people live together in society. " Wants, or needs....which are born in a group from the very fact of social life" are collective wants. Examples given are the need for the defence of person and property, the need of resolving disputes between members within the community, the need for national defence, etc. Thus what is meant is that these are wants which are born in society out of certain inconveniences introduced by having to live together, such as a possible theft, a possible dispute or a possible invasion. Individual or general wants, on the other hand, 'are those which arise and remain within the life of a man who is isolated or who believes himself to be isolated.'[2] Thus, food is an individual want, because, not being produced by 'living together,' hunger will invade a man even when he lives in isolation. But police service is not an individual want, because an isolated man 'has no need to defend his property

[1] *Op. cit.*, p. 34.
[2] *Ibid*, p. 38.

against robbers, who do not exist so far as he is concerned.'[3] Robbers are a peculiar problem of life in society.

Secondly,—and this, De Viti remarks, is a fundamental distinction—'every individual want is satisfied in proportion to the demand of every individual, and the total demand is the arithmetical sum of individual demands ; whereas in Public Finance the collective demand is the resultant of the conflicting evaluations of various groups and individuals,[4] and 'they are represented, not by arithmetical sum of individual needs, but by an *algebraic* sum of positive and negative quantities.'[5] 'Thus the hatter produces exactly as many hats as there are individuals requiring them ; but he does not take into account those who do not wear hats. The State, however, if it furnishes headgear to its soldiers, must produce as many hats as there are soldiers, including those who do not ask for them.'[6] While individual wants are, the collective wants are not, homogeneous for all.

We thus come to the following conclusion. Collective wants, according to De Viti, differ from individual wants both in respect of origin and composition. Collective wants arise—whereas the individual wants do not—from circumstances peculiar to life in society, that is, they are of social origin. Individual wants, on the other hand, are independent of communal existence, being those which can be conceived only in the life of a man who lives in isolation. In composition too, whereas all individual demands are homogeneous and the total is an arithmetical sum of the individual units, a collective want is made up of positive and negative demands arising from the groups that build up the social structure. The sum is algebraic and not arithmetical.

We contend that the distinctions thus made between individual and collective wants, are artificial, and to the extent to which they are so, the conception of collective wants, we further contend, fails to provide a valid basis for a distinct science of Public Finance, or to invest it with a 'peculiar content' of its own.

There would be little objection if the distinctions were made out on the basis of historical sequence, if, that is to say, it were maintained that those wants are individual

[3] *Ibid*, p. 38.
[4,5,6] *Ibid*, p. 39.

which actually existed in the state of nature, and those are collective which were added to the demand system on the emergence of society. Such a distinction would be purely factual, the specific wants belonging to either category, being only discoverable, and therefore distinguishable, on an historical study of the actual transition of human life from isolation to society,—ignoring however the difficulty of marking off the two stages of existence. De Viti only hints at a distinction of this sort when he says: 'So long as man lives in isolation, one can conceive of the existence only of individual wants; *when man passes from a state of isolation to life in society*, there then arise and are added to the individual wants already existing a series of requirements that did not exist before."[7] But he does not stop there. He sets to himself the more ambitious task of establishing a distinction discoverable *a priori*,—the task of attempting to analyse the *nature* of the consumer's want preceding (individual or collective) production.'[8]

Collective wants are described as those wants which arise out of 'the very fact of social life'. A bare statement such as this, which places an unqualified emphasis on social life or 'living together', would appear to work against its own end. For, wants arising from 'living together' may be of various kinds. Living with others a man may feel, as De Viti points out, the want of protection from thieves, robbers, rioters and slanderers. But admittedly communal life introduces other wants too. One feels the want of clothing, of privacy, of a better living, and perhaps also of 'conspicuous consumption' arising from love of display. With the exception of the last, which is not a logical sequel of living together,[9] these are wants which belong to the same plane as do the wants of which De Viti speaks. Just as the presence of a neighbour introduces the inconvenience of a possible theft or of a possible dispute, against which police and law courts are necessary, similarly, life in company introduces the inconvenience of nudity for which clothing and privacy are necessary, the inconvenience of comparative poverty against which attempt of better living in terms

[7] *Ibid*, p. 37 (italics ours).

[8] *Ibid*, p. 39 n. (italics ours).

[9] The need for wearing a diamond, for example, is not a product of living together, as diamondlessness is not an inconvenience introduced by communal life. The emergence of society does not precipitate a situation against which one has to seek protection by wearing a diamond.

of 'conventional necessaries' is called for. Indeed, arguing on this line, it can be shown that with the exception of the minimum requirements of life, all our wants arise from membership of society. All conventional necessaries and all luxuries proceed from the contingencies of social life. While a line can be drawn anywhere (this depending on the progress of society and civilization) to mark off those wants which arise from social life, and those which do not, such a division would be artificial and unstable ; and, to borrow Marshall's language which he used in another context, those who seek one would find themselves on an inclined plane and would not reach a stable resting place till they have included all wants as collective wants.[10]

But possibly this criticism is hasty. It proceeds, as we have already pointed out, from an unqualified emphasis on social life or living together. The gradient of the inclined plane would be considerably reduced, if one understands that the exigencies of social life, giving rise to collective wants, are not meant by De Viti to cover *all* conceivable inconveniences of society, but only those special inconveniences which originate from a 'conflict of interests' as between individuals and groups. While it is true that most of our wants proceed from the contingencies of corporate life, not all are due to a conflict of interests which expresses itself in the 'co-existence' of 'antagonistic activities' of groups. If this is borne in mind, the difference between a want for clothing (due to inconvenience) and a want for police service (due to conflict) is easily seen, although in a very broad sense both deserve to be called collective want, arising as they do from the general inconveniences of social life.

De Viti contemplates two planes of human existence, solitary and social, and appears to conclude that all wants which a person would feel while on the solitary plane are *to him* individual wants, and all wants which newly arise to a man who travels into the social plane, are *to him* collective. It is like differentiating between plain and smart clothing as being respectively occasioned by one's hours at home and one's hours at a party. The differentiation rests on each individual's personal judgment which in its turn depends upon all those social forces that ultimately contribute to his taste.

[10] *Principles of Economics*, App. E 2.

Now, a differentiation of this order is not necessarily inadmissible. In Economics we do differentiate between necessaries and luxuries, and when wants are so classified, the classification proceeds from human conduct motivated by the individual's subjective scale of preference. The homogeneity which makes for a group is in the ***mind*** of the consumer in respect of certain articles, and not in the articles themselves. Some goods I need badly and these are my necessaries, some goods not so badly and these are my luxuries. Since your scale of preference is not mine, goods cannot be uniquely divided up into two groups labelled necessaries and luxuries. And yet the differentiation is valid,—that is, for the *purpose* for which it is made. The purpose here is, not to get at two exclusive categories of goods discernible objectively as necessaries and luxuries, but to explain rationality of human conduct within an individual economy. Indeed, the validity or acceptability of a differentiation rests on the *purpose* for which it is made.

Now, where it is premised, as is done by De Viti, that 'the economic activity of the State arises from collective wants,'[11] or that 'the productive activities of the State........are directed toward the satisfaction of collective wants,'[12] it follows that the differentiation between individual and collective wants (if a distinction is at all made, and if that distinction must fulfil its purpose) must needs be such that the division of productive functions as between the State and individual, is clearly indicated in terms of actual commodities to be produced by each. If the wants cannot be so particularised, the differentiation in the context of Public Finance is not significant.

It would, therefore, be interesting to examine whether individual and collective wants can be particularised in terms of goods, on the lines indicated by De Viti. For example, are collective wants particularised in terms of goods by describing them as those wants which are not felt by a man living in isolation ? Now, the isolated man is either the primitive man of the state of nature living all by himself, or, he is a member of an already existing society, stranded like Robinson Crusoe in an obscure island, or cast in isolation like a Napoleon. If he is the primitive man, since nobody can be aware of a want which he does

11, 12 *Ibid*, p. 34.

not feel, he would not be able to enumerate those wants which he might feel were he to live in society, so that it is not possible to arrive at a list of collective wants along this line. The want for clothing, for example, to hide his bare body or the need for a policeman to resist a thief, cannot be discovered by questioning him, for, to him, these wants are non-existent and yet unconceived.

On the other hand, if the isolated man is one like Robinson Crusoe, the list of wants not felt by him will hardly coincide with those which the primitive man may be *observed* not to feel. For, having already been accustomed to a certain social standard of life, wants not felt by him will be much fewer than in the other case. An aerial observer, for example, would find that while the primitive man is going about unclothed, Robinson Crusoe is looking for some covering even in a wilderness. We cannot interchange the savage and the social being between their respective bundles of wants by merely interchanging their habitation.

The particularisation of collective wants thus fails. It may be argued that quite apart from the primitive man being able or unable to enumerate the wants which he does not feel in his solitary life, one can very well *conceive* of wants which exist or do not exist for him.[18] For example, can we not conceive that for a primitive man there is no need for a policeman? But 'we' being already members of society, such a conception will be question-begging, and would only amount to saying that a policeman whom we associate with society, cannot exist outside of it. Since we invariably conceive a society with its policemen, and a non-social life without them, the conclusion is virtually within the premise.

On the other hand, provided the policeman does not obstruct our vision, close observation would yield quite disturbing results. It would then be found that although a policeman is nowhere to be seen, the need for one is nevertheless present even in an isolated life. For, defence of property is actually against any eventuality; it may be against wild animals, against ravages of nature, and also against bad neighbours as in society. Hence defence of property is a want which may be felt even in isolation;

[18] *Cf.* De Viti's words: 'So long as man lives in isolation, one can conceive of the existence only of individual wants.' *Ibid.* p. 37.

and having felt the want, the isolated man may act as his own policeman protecting, for example, his wild ducks from the wilder jackals of the forest. Similarly, a dispute. In society it arises out of one party taking liberties, either in word or action, with another, transgressing, that is to say, the limits set for each social being by common consent. If a man is living a completely secluded life, dispute with another *person* is of course impossible. But even there the germs of dispute exist in the form of non-human encroachments upon the private pre-occupations of the isolated man who, conceivably, would like them to be resolved by a superior power. Defence of one's own country is, again, in the last analysis, a defence of personal freedom from external aggression. One would keep out a foreign aggressor as one would a wolf, and so the particular want which such an emergency can occasion, is both individual and collective.

In fact, defence of property, defence of the country, resolution of disputes etc., are society-born wants only formally. They are made to appear so by being expressed in terms of social life (*e.g.*, thieves are mentioned, and not jackals, although the inconvenience is of the same nature). But each of them has its 'isolated' counterpart, even to the extent of originating from a conflict of which a non-social version is easily conceived. Not one is uniquely a product of communal life.

Coming now to individual wants, are these wants particularised in terms of actual goods, by being described as those wants which are felt by a man who is isolated or who believes himself isolated? Most certainly not. For, here again the complex of wants would differ as between the primitive man and a social being in exile. Quite naturally, wants felt by a savage living in isolation, cannot be identical either in number or in character, with those that would be felt by an exile who has experience of social life. An additional difficulty is introduced by the fact that a primitive man—if such be the person living in isolation—can never figure out his wants in terms of actual commodities or services, being only capable of feeling pangs of hunger and thirst, or the discomfort of excessive heat and cold. His reactions to these physical experiences would be of the instantaneous and instinctive variety. He would bite at fruits for food, run to the river for water, and live under a tree or inside a cave for shelter. The more wholesome methods of fulfilling these wants are the result of social co-operation, and cannot occur

to the primitive mind. Thus, while he will want food, he will not want bread or bacon, and seeking shelter he will not look for a house. For, it is co-operative life based on division of labour, that produces better and better articles of consumption, so that it comes to this that while conceptually the need for food is an individual want, the demand for many articles of food remains outside its pale. Some of us might argue that if we agree that want for food is a possible want with a man living in isolation, we require to know nothing else; the need for bread or bacon is only a more uptodate manifestation of that want. But perhaps the point cannot be dismissed so casually. It raises the very pertinent question as to whether a want can be conceived apart from the commodity which can fulfil it. For example, what is it that a thirsty man wants? Does he want to remove thirst, or, does he want water? While thirst and water are perhaps instinctively connected, such an automatic association between ends and means is by no means general. Thus the savage may want relief from the discomfort of excessive heat, but he may not know that what he actually wants is a palm leaf to be used as a fan. That contrivance may yet be unknown to him. But surely a want is a want for an actual commodity or service. Until expressed in either form, it does not exist in an economic system.

If this is conceded, we are led to conclude that the pre-social being can have only those wants which can be instinctively connected with concrete means of satisfaction. And their number is a handful, confined perhaps to the early improvisations of food and shelter. It follows that a want which does not arise out of living together, is not necessarily an individual want, unless the isolated man is able to translate it into a demand for an actual commodity or service.

But, once again, it will possibly be argued that individual wants are those wants which can be *conceived* in the life of an isolated man and the picture of the man himself enumerating his needs is wholly irrelevant. Let us accept the proposition and try to pursue it. Individual wants are those wants which can be conceived in the life of an isolated man. Now, who conceives? Of course, 'we' conceive—we who are already members of society, and so the question-begging process starts once again. The chain of argument which, so to speak, binds up wants into two separate bundles marked 'individual' and 'collective', appears

to be simple enough. Is the want for food a collective or an individual want? In order to settle the query we have to answer two questions:

(1) Is food a want which arises out of social life? ... No.

(2) Is it a want which would be felt by a person living in isolation? ... Yes.

Then the want for food is an individual want.

But consider the want for, say, reading for pleasure.

(1) Is it a want which arises out of social life? ... No.*

(2) Is it a want which would be felt by a person living in isolation? ... ... It depends.

And it depends upon how we conceive the isolated man. In this respect, our imagination may travel on several lines:

A. We may conceive the isolated man as a social being cast in isolation like a Robinson Crusoe or a Napoleon.

B. We may conceive him as the primitive man living a solitary life in the state of nature.

C. We may get at the isolated man by slowly depriving in our imagination a social being of his human surroundings. As isolation slowly advances, we imagine him shedding as superfluous his numerous wants one by one. As the last man has left his company, this man together with the wants that remain with him, is our isolated man.

If the isolated man corresponds with (A), the want for reading will persist, supposing he is already an educated man with some intellectual interest If (B), the question does not arise, as reading is unknown to him. If (C), the answer will depend upon whether the slow process of isolation transforms the man into a pre-social being. If it does not, (A) and (C) will tend to coincide, while if it does, (B) and (C) will tend to coincide.

It follows that no determinate group of wants can be ascribed to a person who lives in isolation, unless, that is to say, one knows more about the person in question. But unhelpfully enough, De Viti does not attach any rigidity or definiteness to his conception of 'solitary life'. Here and there, expressions such as "when man passes from a state of isolation to life in society, there then arises etc."[14], or, "a

[14] *Ibid*, p. 37.

man who is isolated....has no need to defend his property against robbers, who do not exist so far as he is concerned,"[15] seem to suggest that the man is conceived as (1) pre-social and (2) solitary. While an exact formulation would have the virtue of particularising a series of requirements as belonging to the category of individual wants, 'pre-sociality' and 'solitariness'—if those be De Viti's distinguishing criteria of life in isolation—would limit individual wants to the barest necessities of life, comparable to the want of air for breathing.

But, as we have already pointed out, De Viti does not appear to contemplate any rigid or invariable connotation of the 'isolated man'. Any want that any body—whatever his antecedents—might feel in isolation is *to him* an individual want, in the same way as any dress which any body might consider suitable for a party is *to that person* smart, or again, in the same way as any goods which a person needs badly is *to him* a necessary, or not so badly, a luxury. Such a division, as previously argued (*vide* page 15), is insignificant in the context of Public Finance.

We now come to the second line of demarcation suggested between individual and collective wants. Collective wants, it is said, differ from individual wants because they arise, whereas the latter do not, from a certain conflict of interests between the groups that make up the social structure. When I want bread, I do not do so with a view to warding off a conflict between my interests and those of others, introduced by living together in society. But when you want a policeman, it is because you fear that I covet your property ; the inconvenience of a neighbour arises out of a conflict of interests between us ; and in so far as the conflict actually exists, your demand for policemen goes counter to my demand for no policemen or fewer policemen, and the aggregate demand is 'an algebraic sum of positive and negative quantities.' From this it is concluded that while units of individual needs are homogeneous and the aggregate is arithmetical, the totality of a collective need invariably arises from two sources, *viz.*, a positive majority who want the production of a certain service, and a negative minority who do not want it, or want its performance in a lesser degree. Extending this argument so as to cover general public services (as distinguished from special public services under a system

[15] *Ibid*, p. 88.

of fees), De Viti obtains a difference between Private Economics and Public Finance, namely "that *demand* and *consumption* coincide in Private Economics, whereas they do not coincide in Public Finance."[16] Every individual want is satisfied in proportion to the demand of every individual, and the total demand is the arithmetical sum of individual demands, whereas "public goods *(i.e.*, goods corresponding to collective wants and produced by public enterprise) are consumed by those who did not demand them as well as by those who did."[17]

The example of soldiers' headgear given in this connection, is however faulty. The State, so goes the example, if it furnishes headgear to its soldiers, must produce as many hats as there are soldiers, including those who do not ask for them. Here the relevant discrepancy between demand and consumption has been missed. If, of a population of 10,000 in a community, 8000 vote for the maintenance of 100 soldiers, and 2000 vote against it, and if of these 100 soldiers 90, on recruitment, want headgears, and 10 do not, the discrepancy between demand and consumption is shown by the consumption of military service by the 2000 who did not demand any. Demand and consumption can diverge even for the 8000 who voted for military service, if it is assumed that while 100 soldiers are too many for 8000, no fewer could be voted for or recruited because military service cannot be produced in smaller units. In either event, the dislike of 10 soldiers for hats is irrelevant. For, those 10 recruits may have been among the 8000 who voted for military service (*i.e.*, for the maintenance of 100 soldiers with full outfit including headgear), while all those 90, now wanting hats, may have belonged to the minority of 2000 who resisted the demand altogether. In other words, the 100 soldiers *as soldiers* are not the demanders or resisters of military service, and their like or dislike for a soldier or any part of his equipment, is irrelevant.

Now, some wants, says De Viti, originating from a conflict of interests, give rise to conflicting demands of positive and negative quantities. These wants—called collective wants—are consigned to the care of the State in view of its overriding power by which it can resolve the conflict and adapt 'the supply to the total consumption of

[16, 17] *Ibid*, p. 124.

the majority and the minority'.[18] The following appear to be the associated features :

1. Origin in a conflict of interests.
2. Wants not homogeneous for all.
3. Conflicting demands, *i.e.*, positive needs which some feel for the service, and negative needs which others feel for the prevention of the performance of that service, or for its performance in a degree different from that which others would prefer, because those who demand this service differ in their estimates of its utility. (p 39.)

The 'algebraic sum of positive and negative quantities' by which the aggregate of a collective want is said to be indicated, is an odd expression, and does not quite lend itself to any plausible interpretation. In the first place, 'positive' and 'negative' as applied to demand, can have no mathematical significance, being only acceptable as a convenient way of indicating mutually opposite dispositions towards a commodity or service, on the part of different groups of consumers. Secondly, the adding together of positive and negative quantities even in the mathematical sense, does not make for an algebraic sum. Nor, again, is non-homogeneity of terms a criterion of an algebraic expression. Homogeneity is a matter of definition, and an algebraic expression can well consist of terms all of which are homogeneous or non-homogeneous in relation to one another, according to any accepted criterion of homogeneity. On the other hand, if it is a *sum*—algebraic or otherwise—, homogeneity, if only abstracted from a number of apparently heterogeneous magnitudes, is always implied. Thus, we can have a sum of 1 horse and 1 dog, and obtain an aggregate of 2 animals. Indeed, it is difficult to guess to what purpose De Viti uses the expression 'algebraic sum of positive and negative quantities.'

An evident distinction between the two kinds of wants seems to be this. Individual wants are based upon each individual's estimate of his *own need* for the commodity or service in question, either independently of, or relatively to, the price prevailing in the market. Independently of price, the absolute need of A, B and C in respect of shoes, are, say, 3 pairs each, making a total of 6. At a given price, the demands are 2 pairs, 1 pair and 0 pair, making a total of 3. In either case, the total is obtained by direct addition. Not so in collective wants. For, here each indi-

[18] *Ibid*, p. 124.

vidual indicates, not his own need, but his estimate of the quantity of a service which is likely to be useful to the society; and, differing 'in their estimates of its utility', each indicates a different amount. It is also conceivable that the estimate would proceed from purely selfish motive. While A would estimate the society's need for policemen at 10, B might assess it at 5 or even 0, not because he honestly feels that fewer policemen or no policemen would release resources for the fulfilment of more urgent needs, but because he feels he would himself profit by a less adequate vigilance in so far as it might make stealing easier. In either event, the number of policemen to be drafted cannot be directly obtained from the information supplied by the individuals. It is only in this rather forced sense that any meaning can be made out of the 'algebraic sum of positive and negative quantities.' The expression seems to suggest that where there are conflicting evaluations, the usual way of computing the aggregate fails.[19]

This way of looking at collective wants no doubt brings into relief some features sharply different from individual wants. The essential difference seems to lie in the fact that certain kinds of commodities and services cannot be produced in small enough units suitable for individual consumption. Thus a road has to be a whole road usable alike by one or many, and the quantity of individual or social consumption of such commodities is often the same. Hence arises the difficulty of computing the aggregate from demands proceeding from individuals each of whom, in so far as he is able to pay for it, requires a quantity which suits his own need, and is yet shareable with others.

But even so, this does not make for any fundamental distinction between the so-called individual and collective wants. It would of course be pointed out that where the fulfilment of an individual's want requires the costly production of a big enough unit which can satisfy

[19]Incidentally, the non-applicability of arithmetic addition in collective wants, is misleading. Even where addition is inadmissible, the aggregate is computable, provided there is no conflicting evaluation. Thus, when all citizens want a road from A to B, identical in length and route, the collective demand is known, although not by way of an arithmetic summation. Hence the point is not in the non-applicability of arithmetic, but in conflicting evaluation, *i.e.*, in the fact that estimates differ. The question thus remains as to whether wants in respect of which there is no difference in individual estimates, are collective or individual.

a larger body, the unit has to be accepted and paid for even by those who did not want it. One has to pay for a hospital which he will never visit, or for a bridge which he will never cross. And—it would be argued—this is a phenomenon never to be met with in the domain of individual wants.

Yet it has to be said that this distinction does not bear examination. The discrepancy between demand and consumption is not a unique feature of collective wants. It exists in every field of human want, call it individual or collective, the identity between the two (*i.e.*, between demand and consumption) being only an unrealised ideal.

Demands seldom coincide with consumption. In the first place, this is because the consumer is not his own producer. Division of labour provides a friction which creates all the difference between a want and its medium of satisfaction. If every individual were to produce for himself the commodity which he needed for the satisfaction of a want, he would have so fashioned it that he would consume neither more nor less than what he demanded. With the introduction of division of labour, however, consumption is now so removed from production that the commodity demanded does not agree with the commodity supplied. Private as well as public enterprise take the form of a many-commodity firm,[20] producing a variety, and oftener than not, a consumer is obliged to buy the unwanted, except of course in the ever-receding long run which is where all discrepancies are said to vanish. One buys a pair of shoes with an atrocious pair of buckles which is simply thrown away, a piece of furniture with out-moded appendages which have to be removed at one's own cost, or, again, a piece of garment with frills and laces that have to be discarded outright. Similarly, in the field of Public Finance one pays taxes for the construction and maintenance of a highway the whole of which one has never any occasion to use, a bridge for which he has no personal demand, or for a hospital where the diet is so much to one's distaste that it is simply wasted. In each of these purchases one has to pay for something which he did not want. While our wants are wants for particular commodities, the separa

[20] The idea of a many-commodity firm was suggested to me by my colleague Dr. A. K. Das Gupta. Its application or misapplication in the present context is, however, entirely mine.

tion between the consumer and the producer makes it difficult to turn out goods according to individual specification. We pay for more things than we demanded, and if the diseconomy is tolerated it is because absence of division of labour would make our satisfactions even more costly.

Secondly, even where the consumer is his own producer, or where the producer tries to turn out goods according to the consumer's own specification, technical obstacle in the form of indivisibility may prevent a coincidence between demand and consumption. A commodity may refuse to be produced in small enough units suitable for individual requirements, and in all such cases demand and consumption must diverge.

Consider collective wants. Here what happens is that owing to technical reasons commodities and services are produced in units big enough for the whole society; and since votes are given, that is, demands are made, in view of a known incidence of taxation, it comes to this that while the whole cost is covered by the revenue realised, the complex of goods produced, consists of items all of which are not wanted by all. Each taxpayer consumes only what he requires, and as a necessary price, pays for everything else besides. Each citizen consumes a part, but pays towards it by accepting the whole. It is like paying the monthly subscription to your club which provides outdoor games which you never join, in order to be able to play at cards for which you may have a great liking.[21]

An exactly similar situation can be contemplated in the domain of individual wants too. For a month's visit to the hills one has to buy a pair of leather gloves which would give a longer wear than one cares for. For listening to occasional musical programmes a whole radio set has to be purchased because a smaller set for music alone is yet to be invented. Where a short flow of utility is what is only wanted, a whole fund has to be acquired whenever technical reasons prevent the production of a commodity in infinitely varied forms yielding infinitely varied utilities.

[21] It is conceivable that in such a situation some sort of readjustment would be attempted between individuals by private exchanges, so as to narrow down the margin between demand and consumption. Thus permits for crossing a bridge may be exchanged for, say, dispensary tickets, between holders who have no use for the one, but who need more of the other than the usual quota, owing to an emergency or for the sake of future provision.

The difficulty may be avoided by hiring and not buying; but where this is not possible, demand and consumption must diverge. This is such a common phenomenon that it is useless to deny or overlook it, and speak of Private Exchange equalising demand and consumption. How many of us are any better than the luckless young man who fell in love with a dimple and curl, and ended by marrying the entire girl ?

In the light of the above, individual and collective wants can now be set on a par. Both private and public enterprise produce in anticipation of demands relatively to given price and tax schedules. In both there are technical impediments arising out of division of labour and indivisibility, which create a discrepancy between demand and consumption,—the consumer paying an over-all price for what he wanted as also for what he did not If wants could be satisfied by uniquely fabricated commodities, and if all commodities could be produced in infinitely divisible units, these discrepancies would disappear, and once again individual and collective wants would be set on par.

It now remains to examine to what extent 'conflict' and 'homogeneity' as respectively making for collective and individual wants, are co-extensive with the productive activities of public and private enterprise. De Viti says that public enterprise tends to specialise in the production of goods destined to satisfy collective wants.[22] He argues that since collective wants arise from a conflict of interests, and since conflict is itself a technical obstacle which would make private production costlier than public, all collective wants are chargeable to public enterprise. The principle of least cost which is the universal basis of all division of labour, is shown to fit well with the classification of wants made. Thus:

Collective wants → Origin in society → Public Enterprise ← Private production costly ← Conflict ← Collective wants

Individual wants → Exists even outside society → Private Enterprise ← Private production less costly ← No conflict ← Individual wants

Now, surely if this correspondence can be shown to be permanent and universal, that fact itself would lend support of a sort to the distinction made between individual and collective wants. But De Viti himself admits

[22] *Ibid*, p. 148, art. 11.

that this is only a first approximation. Here are some of his very pertinent remarks :

> "This delimitation is not marked by a line that fixes permanently and *a priori* the productive functions of the State.......there exists at the margin a continuing interflow between the two types of enterprises and the boundary line is continually being shifted according to the principle of least cost, which regulates the division of labour among all enterprises in such a way as to render most economical the entire organism for the production of goods, whether public or private."[23]

and again,

> "We must start from the concept that there exists a necessary relationship between the productive activity of the State and a given category of collective wants, and, reciprocally, between the productive activity of private enterprise and another given category of individual wants. In a second approximation, to be sure, it is to be granted that the line of demarcation varies..."[24]

All this amounts to admitting that the principle of least cost cuts across the division of wants into individual and collective, and the sovereign director in this respect is Economy. In fact, going to the other extreme, De Viti regrets that he should have been accused of "(*a*) wanting to confine activity in the field of Public Finance to the satisfaction of *all* collective wants and *only* collective wants, to the exclusion of private enterprise ; and (*b*) having wished to determine *a priori* or to give to the State *a norm* with respect to the productive functions which should be regarded as belonging to it."[25] It is not, however, quite clear why De Viti should wonder at, and protest against, these 'accusations'. For, does he not say (and the question remains as to why in view of his subsequent observations he should have at all made such a categorical statement) :

> "What may be called Private Economics studies the activities of the individual, in so far as they are directed toward the satisfaction of individual wants. What may be called Public Economics, or the Economics of Public Finance, studies the productive activities of the State, which are directed toward the satisfaction of collective wants."[26]

And as if the confusion is not enough, he adds :

> "I consider erroneous the *fundamentum divisionis* which has reference to the most economical means of producing the goods without attempting to analyse the nature of the consumer's

[23] *Ibid*, p. 48, art. 11.
[24] *Ibid*, pp. 49-50 nn.
[25] *Ibid*, p. 48n.
[26] *Ibid*, p. 34.

> want preceding production. The nature of the need does not change as the result of entrusting production to individual enterprise, on the one hand, or to concerted enterprise, on the other."[27]

This last makes nonsense of much of what has been said on the basis of the principle of least cost.

The simple fact is that human wants have between them no qualitative distinctions. All wants are identical in nature and composition, and no difference can be made out. As to the method of fulfilling them, a difference may of course arise. Some may be fulfilled by individual enterprise, and others by the collective effort of the community, *i.e.*, by the State. The exact allocation is a matter of economy, depending on the extent to which the principle of least cost is realised, and human discretion, ordinarily otiose, is relevant only in so far as individual predispositions can be taken account of in cost accounting. Where according to the principle of least cost the allocation is *nil* for private enterprise, the society is communistic; where it is *nil* for public enterprise, the society is individualistic. Since, however, both public and private production have each its own special economics, the economic complexion of societies is in fact an amalgam of both, being either controlled individualism or decentralised collectivism. Once the allocation is complete, one can, if one so chooses, name the wants as collective and individual, according as they are charged to public and private enterprise. But that would be a purely *ex post* distinction.

In conclusion it should be mentioned that nothing that has been said above precludes the possibility of a community of men agreeing among themselves that *without* reference to the principle of least cost, certain wants to be called collective wants should be fulfilled by the State, and certain others to be called individual wants left to individual enterprise. And having agreed upon the list of commodities to be produced by public enterprise, they may elect a body of producers to the Government who promise to supply this bundle of goods at the least total cost. But that is a different story altogether.

[27] *Ibid*, p. 39n.

REFLECTIONS ON FUTURE ECONOMIC ORDER: INTERNATIONAL AND NATIONAL (II)

BY

KASTURCHAND LALWANI

B. M. College of Commerce, Poona

II. NATIONAL

To-day there can be no question as to whether we should plan. For, planning in some form or other there must be. Hence, the question to-day is not one of why but of what and how. But here a distinction must be drawn between planning for construction and planning for reconstruction. The question of planning for reconstruction must predominate in case of those countries which are devastated as a result of the war, though, of course, reconstruction will take place not exactly on pre-1939 basis, but according to changed circumstances. In our case, however, it is a question of planning for construction, which must precede reconstruction. For, while other independent nations have an economic structure which has fairly met the needs of the people, the economic structure in this country has satisfied the needs of only a microscopic fraction of the total population, leaving the vast majority in want. The stock arguments are that India is poor, that Indian capital is shy, that Indian soil has diminished in fertility and that India has no adequate supply of skilled labour. No doubt, these arguments are true to some extent; but the present war has made it clear that the principal drawback of our economy is the non-utilisation of our resources, material and human, due to the pull of political factors. The war has also made it clear that when the interest of the government demands—for, in our case, the government must be distinguished from the people—India can send immense supplies of manpower, raw materials and finished goods. What could not be done in hundred years of peace, has been achieved by five years of war. Indian poverty is a myth; lack of power is the grim reality.

Now that the Government of India speaks of post-war planning, I would like to emphasize the need for planning for construction—with a view to the fullest utilization of our resources, maximum expansion of productive activity,

and even distribution of national income, and with a view to attaining full employment and raising the standard of living of the masses. For, no order, national or international, can be stable unless slumps and unemployments are abolished in every national economy. Since now-a-days slumps and unemployments in one major country of the world have their repercussions on all countries and since even to this day we have not been able to devise a formula which can solve these problems on an international scale, it is better that the problem be tackled in each economy by its own government. Now that the days of sound finance are over, the problem can easily be tackled without causing undue strain on national economy while at the same time avoiding unnecessary repercussions on the economy of other countries. It is true that after the first war, the erection of tariff walls and the problem of reparation payments intensified the depression of 1929; but the cause is to be found in the fluctuations of the rate of real investment. Therefore the only solution of slumps within each national economy is to remove these fluctuations and that of unemployment is to stabilise real investment at a high level.

The most tragic thing in international economy is that by 'international economy' is to be understood only the problems of international trade and all the currency and fiscal problems connected therewith. Nothing can be more erroneous than this and if the world is to learn anything from the last depression, it is this that the free flow of international trade does not solve the problem of slumps and unemployments within the national economy, neither does it ensure a high level of real investment. Thus instead of saying that the volume of foreign trade determines home investment, we should rather say that the volume of home investment determines the volume and course of foreign trade. The natural corollary from this is that by far the best and most effective method by which one country can assist the full employment policies of another country is that the former country should itself be prosperous and raise the rate of its real investment. We are living in a world in which contractionist or deflationist policies are foolish enough. It was argued by some people after the last depression that since the expansionist measures in one country injects almost unconsciously a part of its recovery-prosperity into the economics of other countries, there is a case for contraction.

But nothing can be more suicidal than this. For, just as a part of the recovery-prosperity of this country transmits itself into the economy of other countries, in the same way this country gains owing to the transmission of a part of the recovery-prosperity in other countries. Hence the need for expansionist policy within each national economy.

But here arises a problem of great importance. If the experience of the first world war is to repeat itself, then owing to the lack of a balanced economy in most cases, the industrial countries will experience a post-war boom whereas others depending mainly on agriculture will experience a slump. The reasons are obvious enough. The post-war demand for reconstruction will require industrial goods, though not war materials, and the prosperity of the industries in transitional period, at least, will depend on the ability of industries to readjust themselves to post-war reconstructional needs. Those industries, of course, which are particularly war industries, will have to be dismantled, but others, *viz.*, those which were converted from peacetime industries to war industries, can easily be converted into peacetime industries, supplying the requirements for reconstruction. But in case of agricultural countries, owing to the disbanding of the military personnel and their return to the soil, and owing to the decline of wartime demand for foodstuffs and release of wartime stocks by the Government, a slump is inevitable. This being so, different economies should pursue different policies according to the nature of the problem to be tackled.

So far as the countries in the first group are concerned, their immediate problem will be to see that the boom is not a passaway boom and their long-run problem will be to maintain, and, if possible, to raise the level of real investment, if necessary, by inflationary measures. The post-war boom is generally shortlived because of the fact that the change-over to peacetime conditions takes a much shorter period. This time, of course, the transitional phase will not be so short as during the last post-armistice period, if we are to judge it from the nature of destruction during the present war; but it will not be wise to expect it to be too long. Hence measures must be adopted in order to ensure that the change-over must be followed by the maintenance of full employment, and, if necessary, by enhancing it by specific measures, like public works. The problem of Finance may be raised and it must be admitted that those countries

where the extent of inflation has not gone too far, as it did in our case, the scope of taxation over and above the present rates will be meagre. But now that the world has become sufficiently well versed in the technique of infl ıtion, it may be resorted to, to some extent, where the objective is a lofty one of maintaining the equilibrium of the economy and of raising it, if necessary.

In the case of agricultural economy, however, the cessation of hostilities will be followed by a slump, the more so in case of India. The signs are already there for the last ten or twelve months in this country when the upward trend of prices has been checked and the trend is now downwards. If adequate measures are taken, it will move downwards still further ; but there should be a limit to it. It is well known that Indian agriculture suffered most during the last depression, from which fullfledged recovery did not begin for some time after the commencement of the war. Then of course followed the golden days of Indian agriculture and they have failed to leave any permanent impression on it. This is partly due to the fact that the Indian peasantry had to purchase other necessaries at equally high price. But the main reason is that the purchasing power that the greater part of the peasantry received has been paid back either to the mahajans, or squandered on social ceremonies and on the purchase of precious metals and ornaments at extravagant prices, and very little or almost none on the improvement of soil conditions or the adoption of scientific methods of agriculture, which is mainly due to the nonavailability of machinery and other requisite materials. The Thousand Crore Agricultural Plan is there on paper for the post-war development of Indian agriculture. If the plan materialises, it is quite good. But, from the experience of the nature of the work done during wartime, one should not be blamed if one feels pessimistic over it. Of course, we hear good people say that the plan must materialise for one reason or another, the most important being that Indian peasants must have purchasing power with which to purchase the goods produced by industrial countries. In this connection, reference may be made to a booklet published by the Government of Bengal—"Shopping Guide"—which contains an exhaustive list of imported finished goods, like radio parts, safety razors, lipsticks, etc., with the names of their manufacturers and their controlled prices, the object being to familiarise the people with these.

Assuming for the present that the said Plan is going to materialise, the next question is, what policy is proper for adoption. But here one should consider the extent to which the prices of agricultural goods should go down and when the process should take place. The best time for this is during the war and not to leave the process for post-war period. For, if it is left for post-war years, the agriculturists will suffer most owing to the fact that during the same period the industries would witness a boom whose continuance we have advocated above. Therefore, the best policy will be to reduce the prices of agricultural goods by control measures during the war and to bring them down to a certain level—which must undoubtedly be above the pre-war level—and to stabilise them at that level, not only for the rest of the war period, but also for post-war period, by the adoption of special decree for the purpose. If, in the meantime, owing to the realisation of the Agricultural Plan, the cost of cultivation comes down and the yield improves both qualitatively and quantitatively, the wartime prosperity of Indian agriculture will be maintained, nay, enhanced. But if the apprehensions of the pessimists regarding the Plan come to be true, even then, owing to the stabilisation of agricultural prices, the cause of Indian peasantry will not be thrown to the winds.

Some people in this country are coming to favour a policy of controlled deflation in immediate post-war period. Deflation, however controlled, will land our economy in perpetual depression. A policy of deflation was adopted by the German Government in 1931, after a period of severe inflation, and the results were disastrous (*cf.* C. Bresciani-Turroni, *The Economics of Inflation*, and, Guilleband, *The Economic Recovery of Germany*). This should not be taken to mean that the continuance of the present high level of prices is favoured for post-war years. Prices should be reduced to a certain extent, and that should be done during the continuance of the war, not by a policy of controlled deflation in post-war years. It is true that a sudden fall in price will give a jerk to the economy and must be avoided in all cases; but if measures are not taken from now, prices of agricultural products will collapse all on a sudden in immediate post-war years, however much control of deflation may be instituted, and cheap agricultural products will be smuggled in to the detriment of Indian agriculture.

The adoption of a policy of Inflation being out of question, and having ruled out deflation for reasons stated

above, a more reasonable approach would be a policy of devaluation of the Rupee. The case for devaluation of the Indian Rupee is not new and has been voiced for times without number by Indian economists. But before coming to this question, we should say something about the sterling chain on our currency. Currency-nationalists have never been able to offer their blessings to any exchange standard for reasons too well-known to need repetition. The present war is another eye-opener in this respect, the first being in the year 1931 when England went off gold. The greatest lesson of the war, so far as India is concerned, is that the sterling link is the cause of the entire problem of our sterling balances which are agitating the minds of our economists and businessmen. Had the Rupee been free, England would never have paid us in her own currency, but would have acquired our own for effecting purchases in this land, as is usually done in case of foreign currencies, or as we ourselves have done in case of sterling while purchasing in England. If this had been done, the problem would not have presented itself in the shape in which it has done to-day. The only parallel to this can be found in the German-controlled Europe, which are paid by Germany in blocked marks, to be liquidated later on by the import of German products (*cf.* Condliffe, *Reconstruction of World Trade*). We have suffered in various ways as a result of this sterling link. In the first place, this has introduced a new principle in the relation between buyer and seller. For, it is the general rule in business that the buyer must pay the seller in the currency of the latter's country, when the buyer happens to be a foreigner. It is fantastic that a German making purchases in India will make payment in Reichsmark, an American in Dollar or a Japanese in Yen. But even this fantastic episode was possible because of the sterling link. Secondly, the natural course of the exchange rate was not allowed to run its own way as a result of the institution of exchange control, which, along with the government purchases of materials at controlled prices, when inflation was ruling high, meant not only a great gain for the purchaser, but also a great loss, suffering, famine and privation for the millions of Indian population, which would not have been possible had the Indian Rupee been free. True, we have got rid of our foreign obligations—and this factor was given the greatest publicity—but we have done this at a great cost and pain. Thirdly, these sterling balances, in their turn, facilitated in the farther march

of inflation, which could be carried on against sterling securities, and, for this purpose, it is well known, the Reserve Bank Act had to be modified. Fourthly, it not only enabled the British Government to utilise our sterling for their own purposes at a nominal rate of interest, but also enabled the British Government not to inflate their own currency to the extent to which they would have been called upon to do, had we not allowed our dues to be utilised by them in that fashion. And finally, comes the problem of the transfer of these balances from England to India. It is now well known that the transfer of these sterling balances would not be allowed through the channels of multilateral clearing, but will have to be effected by bilateral agreement with Britain, which means another huge loss. Another well-known principle in business is that the purchaser purchases in the cheapest market. But in the present case, we must purchase from England, if we want to have our dues cleared, even though this may mean purchase at high price of even inferior quality materials. These are, in short, the sundry problems that have arisen as a result of the sterling link. If the link persists, greater harm will be done to our economy. It has already been pointed out that our problem as an agricultural country will be entirely different from the problems facing England, with the result that any change or fluctuation in British economy will transmit its consequences, however unwarranted and harmful they may be, to our economy, owing to this link. Hence our immediate objective should be to break off from sterling.

To some the proposal will appear to be too revolutionary to be accepted, their stock argument being that the Indian Rupee is not a standard coin—not a hard currency—and hence it must preserve its existence under the shelter of sterling. Those who argue like that, it must be said, have no idea of the situation. Instead of saying that the Rupee is not a hard currency, we must say that it was and is equally hard—even though not a standard coin—with any other currency, and much harder than sterling to-day. For, leaving aside the few unfortunate years of the thirties, when the situation could have been averted by rational measures, we have always maintained a favourable balance of trade up to this time, and if the Rupee is properly valued and no artificial barriers are created at our cost, like the International Sugar Convention, this situation will continue for years to come. That we have been able to maintain this position even when

the Rupee was overvalued and when almost all the currencies, including the major ones, had to depreciate in order to maintain this position, is not a matter of joke. If properly valued, we would have benefited much more. With this much of historical evidence, a strong case is made in favour of breaking off from sterling as early as possible. In this connection it is interesting to note that the argument put forward by the Government of India in favour of linking the Rupee to sterling (*viz.*, that India has annually **£32m.** sterling obligations and a sterling loan of **£15m.** was maturing early in 1932, that without the link the difficulty of raising the necessary funds for these purposes would be insuperable, and that without a stable sterling Rupee, Indian budget would become a gamble in exchange) does no longer hold good, unless, of course, the Government give a twist to their argument and say that since Britain is now a debtor and since we want our payments by some means or other, our interest would be safe if the Rupee is linked to sterling. If this argument be accepted, then a stronger case can be made for linking the sterling to the Rupee, instead of the other way round, which would be equally distasteful and unacceptable to Britain.

To consider the case for devaluation of the Indian Rupee, the main argument in its favour is historical. It is, of course, impossible to lay down any hard and fast rule as to the natural or ideal rate of exchange between two currencies, Indian Rupee being no exception. But the working solution that is generally adopted for the sake of stabilisation of the external value of currency is that rate which is easily maintainable. Even then, conservatism should be avoided in this matter and exchange rate should be varied as the situation demands, though, of course, I would be the last person to advocate competitive currency depreciation for no other purposes than creating disadvantage to others and thereby encouraging further depreciation. In our case, this easily maintainable ratio was 1*s.* 4*d* which continued for nearly 20 years from 1898 and only broke down owing to the abnormal situation created by the war. The subsequent history of Indian currency is not at all palatable and it is well known how the country suffered a huge financial loss as a result of the foolish experiments in ratio which led to a squandering of the resources that we had amassed during the war. In 1931, the Rupee was linked to sterling at 1*s.* 6*d.*, to the greatest dissatisfaction of Indian opinion, to the loss of Indian gold and to the overflooding of the Indian market by foreign

goods, particularly those from Japan, who had depreciated the currency. This fact assumed a threatening proportion, not only against Indian interest, but also against the interest of Britain in Indian market, and in order to préserve the latter interest in particular, special measures had to be adopted and revised agreements entered into. Since then, Indian opinion has never reconciled itself with this ration, though to no purposes for reasons political. But "no fair-minded person acquainted with the economic situation of the country can deny that the 1*s.* 6*d.* rate has placed the agriculturists as well as the industrialists of India at a great disadvantage during the last eight years."

To-day the problem before India is how to avert the next slump. There are two ways both of which must be followed. In the first place, the pent-up purchasing power inside the country must be released and so distributed that it can be utilised, instead of being blocked. The sources of this purchasing power at present are a few industrialists and big businessmen, war contractors (in fact, this is the principal source), big agriculturists and Mahajans, and, if we are to rely on hearsay testimony, a class of government officials. So far as the last class is concerned, it is very difficult to find adequate figures, though impartial enquiries may go to a certain extent. But the question is, how to release this purchasing power ? A case can be made here for capital levy ; but it is a very delicate mechanism and, if adopted, requires excessive care in enforcement and even then it is done by creating great dissatisfaction. Taxation is no better alternative, since we have already reached the height of it. Taxation of capital would no more be acceptable in view of the fact that it would break the 'camel's back', which is already too weak. Hence a loan programme along with an extensive and well-balanced public works programme would be better and also would be able to absorb the persons who had been previously employed in direct operation in the field or in war-works. This would not only solve the problem of maintaining full employment but at the same time release the pent-up purchasing power. If, however, the Government is not ready to undertake any extensive public works programme, they can at least grant concessions to those works and industries which will be able to maintain employment to the same level as during the wartime, and further assistance per head of man employed, if they can absorb more men, released from military service (*cf.* Poole, *German Financial Policies, 1932—39*).

The second method to be followed, if we are to avert the next slump, is that we must cultivate the foreign market that we have acquired during the war. For this purpose, India must be prepared from now. It must be borne in mind that the advanced industrial countries are taking steps for the introduction of rationalistic measures. In this respect, the British efforts are well known. Besides, there is one group in England which has already raised the cry that the sterling is overvalued in comparison with dollar and hence it should be depreciated. Another cause of apprehension is that, after the rejection of the multilateral clearing of our sterling balances, and the conversion of our dollar resources into sterling, we may be forced to purchase finished industrial products—and not plants and machinery—which would not only seal our fate in the newly-created foreign markets, but even our own home market would be lost. The most serious drawback from which our industries would be suffering is the wartime depreciation of plants and machinery; and unless measures are taken from now, *i.e.*, during the war, for their replacement by new and up-to-date ones, there is sufficient reason for grave apprehension about the future of our industries. Hence unless rationalisation measures are adopted from now and unless the Indian Rupee is devalued, the prospect of our foreign trade will also be dark.

In this connection the plea of Dr. Muranjan in favour of a Shilling Rupee and four-Rupee Dollar, thereby leading to a devaluation of about 33 p.c. is to be appreciated. He is quite correct when he says that a consideration which might be regarded as favourable to a higher rather than a lower parity is the so-called creditor position of India and that this change in the world economic position is rather overstated. For, India's creditor position is not a permanent one. A capacity to maintain creditor position permanently means in case of India the possibility in post-war years to supply banking, insurance and shipping services, to dispense with British administrative personnel, to liquidate British investments in India, which she will neither be able to achieve nor will she be allowed to achieve. This being so, if our sterling balances remain intact, then at 2½ p.c. on £ 1000 m., we can have an income of £ 25 m., which may perhaps be equal to payments we will have to make on above heads for a period of time quite unknown. This is just a balanced position. If, however, the balances are dissipated or depreciated in course of time, the so-called creditor position would be more and more reversed. This

is a timely warning and we must be careful and pay attention to their not remaining 'intact'. If Britain depreciates her currency, which she is expected to do, then our interest is bound to suffer, unless of course, the Government of India enters into special agreement with the British Government in this matter in the same way as the Argentine Government has done. At the same time we do not want that the British interest should suffer in our hands in case the Government of India can be induced to devaluate the Rupee. This sort of agreement with Britain would safeguard the interests of both the countries.

It may be argued that during the war India has seen a severe inflation and therefore a natural policy in post-war period will be deflation and that if this is not done, then the maintenance of high prices inside the country will make India a market for foreigners. This sort of argument would have been appropriate in pre-1914 world. Those days are gone by and we can now easily separate the internal economy from the undue influences and repercussions of external economy and can have one policy for home and another for abroad. That this can be achieved is beyond dispute and that this will secure prosperity and full employment inside the country, without unnecessarily exposing it to the fluctuations of the external world, is also certain. It will not be proper to accuse this as a trend towards autarky, for, a sound international economy cannot come to exist unless national prosperity and full employment are ensured.

In this connection something should be said about the post-war Plans that are being widely discussed in our country. Of course, it is not a proper place for entering into a detailed discussion of these plans or their inherent merits and defects. But anything that has a very enthusiastic beginning cannot but raise apprehension in the mind of the pessimist. For, mere paper plans would lead us nowhere. Besides, interests differ, in so far as the government is mainly concerned with agricultural planning whereas Bombay industrialists' main concern is the rapid industrialisation of the country. Some of the Provincial Governments, again, are having their own plan. The enthusiasm is almost unprecedented. There is, besides, some such thing as People's Plan, which smells of capitalism in every plan other than its own, although it should know that socialism can only come in the wake of capitalism, and cannot be achieved overnight by the adoption of any

plan, however revolutionary, as is clearly demonstrated in the ideological collapse of Soviet communism. Leaving aside the last Man, the apparent contradictions in the above plans should not exercise a misguiding influence, for agriculture is as much vital to our interest as industry, and if both these are really developed on scientific lines, we can easily have a balanced economy. What is needed, therefore, is a coordinated plan for the whole of India which should be chalked out immediately and adopted at the earliest possible opportunity. In this coordinated place it is necessary to give a place of special interest to exchange banking, oceangoing ship-building and insurance, so that we can reasonably and conveniently do away with the necessity of going to Britain for these and of making an annual payment in sterling to that country when we can have these services of our own. This will not only give us economic independence but also obviate the necessity of having our sterling balances blocked permanently so that we can make payment for these services out of the interest we get therefrom or of acquiring, in case these sterling balances are cleared, sterling in England, which had been the practice so far, for making payment for these services. Besides, we must be a bit cautious and economic about the external finance of the coordinated plan. For, any haphazard method of industrialisation and, agricultural development will not only lead to a wastage of the external resources that we have accumulated at great cost during the war, but also will involve us into foreign indebtedness from which we have somehow got rid of. True, this sort of indebtedness for productive purposes should not cause anxiety; but then resort to foreign loans should be taken only when our own resources are exhausted on rational measures. Otherwise, the mere raising of foreign loans in a moment of enthusiasm will unnecessarily impose the burden of foreign debt on our shoulders. If the authorities are serious enough for planning, then I do not think that the external resources that we have accumulated and may accumulate during the continuance of the war will prove insufficient for initial purposes, which, in turn, would leave secondary, tertiary, and so forth, repercussions on subsequent development. This should not, however, be misunderstood as a policy of sound finance ; the delicacy of the problem requires a careful handling of the solution.

It is this question of external finance of any future plan that India may adopt and the consequent need for foreign loans that has evoked enthusiasm in some

quarters in this country for the membership of the proposed International Monetary Fund and the proposed World Bank. In this connection, any hasty conclusion should, however, be avoided. For, it is quite well known that the Bank is not the body that will grant us loans ; it will simply guarantee loans to be made by others. This sort of assistance is needed in case of those new countries whose creditworthiness is not known or in case of those old countries who have no sufficient credit in world market. Thus conceived, the position of the Bank is the same as the position of a credit department in a selling concern. In fact, the very name 'Bank' is a misnomer, since one main function of banking is excluded from its purpose. Whatever it may be, even assuming that we shall need foreign loans, there is no reason to think that we should be in need of any such assistance from the World Bank, when our own credit is sufficiently high. For, in the first place, we have cleared our foreign obligations, in spite of this fact that the nationalist opinion had always regarded them as unjustifiable drain. This very fact is enough to secure a high credit for us in international capital market. Secondly, our Rupee has the credit that it can maintain its own value, backed as it is by a favourable trade balance. And thirdly, our intention and purpose are quite commendable, in so far as any such loans will be used for productive purposes, and not for financing a war. Hence they will be backed by the productive activity inside the country. This being so, I have not the least doubt that if we are in need of foreign loans, we can have them on our own credit instead of seeking the aid of a guaranteeing authority.

Although on above grounds there is no need for taking the help of a World Bank for floating loans, something needs be said about the proposal made by Dr. Rao of the Delhi University, who is insistent on India's joining the I. M. F. and the World Bank. Among other arguments, the principal argument is that "if arrangements could be made with the U. K. for her to pay the amortisation amounts due on the loans that India can obtain from International Bank, India can get the capital she requires at once ; and England will get enough time to liquidate her sterling balances, as the amortisation period will extend over a period of at least 20 years." The argument is good enough ; but a bit of realism will be more helpful than mere theoretical discussion. British opinion today is in favour of bilateralism, with a view to capture the Indian market and we cannot help it, if we want our payments back, since we

have already transferred our goods to that country. In the proposal under consideration, the whole purpose will be frustrated from the British point of view ; for, in that case we will have no need for making our purchases compulsorily from Britain. But this is too much to expect. It would be better therefore to try to get as much as possible from Britain, not of course in consumption goods, but in investment goods, which may be of help for purposes of industrial development, through the channels of bilateral agreement, instead of undergoing the lengthy process of blocking our dues for a long period of time, of India raising loans through the guarantee of a World Bank and of Britain paying the amortisation amounts due on loans that India may raise. For, in the latter case the gain that India may make in having its purchases in whatever market she likes, it will also lose in interest payments on this foreign loan and will have to face all the intricate problems of repayment. If, however, we enter into a bilateral agreement with Britain—and there is no way out—Britain will gain much more than she ought to have done on the whole transaction, but we will also be able to simplify the problem in which we have set our foot. Hence the mere question of foreign loans should not be the sole criterion in our attitude towards the World Bank. A more rational attitude will be to wait and see.

AGRICULTURE IN THE BOMBAY PLAN

BY

HARBANS LAL, M.A.

Lecturer in Economics, Patna College

Since the publication of the Bombay Plan, its authors have been severely criticised for ignoring agriculture and giving an over-weightage to industry in their scheme of economic development for India. A similar attack has been made by Mr. A. N. Agarwala in an article published in the October issue of this *Journal*. The author accuses the industrialists for voluntarily forcing agriculture "to play the second fiddle in the whole programme."[1] In this article I propose examining some of his arguments which form the basis of his criticism of the Plan.

I

Mr. Agarwala starts his critical review of the Plan by reading into the mind of the industrialists and on the basis of the alleged equality in the net income proposed to be raised from agriculture and industry condemns them for having a wrong notion of balanced economy. "The theory of balanced economy" he writes "is merely another name of the doctrine of the full employment of human and material resources of a country and, according to it, the best interests of a nation would be served if the proportion between the industrial and agricultural sectors of her economy is arrived at and determined through a process of putting her *entire* resources to the best possible use in relation to internal consumption, production and export."[2] In his opinion, therefore, the correct principle guiding all planning should be the full employment and equi-marginal distribution of resources with a view to deriving the

[1] A. N. Agarwala, The Pace of Agriculture vis-a-vis Industrialists' Plan, *Ind. Jour. of Economics*, Oct. 1944, p. 118.

[2] A. N. Agarwala, *Ibid*, p. 119.

maximum return from the available resources. Indeed, on purely theoretical grounds, no one would object to such an allocation. The ideal position for a country would be obtained only when its resources are fully employed and equitably distributed over channels which promise best returns and every plan should aim at the realization of the said position *ultimately*. But in practice it would not be easy or even possible for every country to do so *at once* or *at a stretch* in the very first attempt. There are obvious difficulties which compel the objective to be kept low and the allocation modified so as to make the plan a workable proposition.

But that in no way justifies the remark that the industrialists are ignorant of the principle of balanced economy. As a matter of fact, they seem to be fully aware of it; for they themselves mention that "the *ultimate* objective of any planning should be to increase the volume of India's economic production to the *fullest extent which its natural resources would allow*."[3] It is implied that our resources if fully mobilized can possibly yield much more than the threefold increase in the national income, which they have fixed up as the target to be achieved in the immediate future, say, within the time-limit of 15 years. "The modest aim of securing a general standard of living which would leave a reasonable margin over the minimum requirements of human life"[4] has been determined particularly with reference to the practical difficulties that lie in the way of the fullest mobilization of our resources within a limited period of fifteen years. *Firstly*, full knowledge about the potentiality of our resources is not available. *Secondly*, we have not got a clean slate like the U. S. S. R. to start with. Conditions in Russia after the revolution, *viz.*, Victory of the proletariat, abolition of the vested interests and the privileged class; revolutionary leadership, mass awakening, and rigid one-party discipline; abolition of private ownership and property and complete command over the wealth and resources of the nation; new outlook and new ideology—favoured a gigantic programme to be launched with the specific aim of revolutionizing the country's economy and constructing a new economic and social order. In India, however, we have to start with the present socio-economic setting and take up a programme that can be effectively

[3] *A Plan of Economic Development for India*, p. 7.
[4] *Ibid*, p. 7.

worked out. The plan, therefore, has to aim at a modest objective and the method to attain it has to be less revolutionary, more gradual and relatively slow, involving series of adjustment and compromise. It has to be more of the nature of a reform rather than a revolutionary departure from the existing situation. *Thirdly*, our toll of human suffering, distress and privations over nearly two hundred years of subjugation and political dependence has been already excessive and the masses are living on the hope of better times and improved conditions under the national government. Independent India, therefore, shall have to plan for progress and betterment and work it out in a manner as would cause least suffering and hardship and bring quick returns. We cannot aim at spectacular results because the country has no patience, nor the capacity, to bear the heavy cost in terms of human sufferings that would be involved in an ambitious project. If in the zeal of ambitious planning human suffering becomes unbearable and intolerable, the programme would meet opposition and even crash into failure. *Fourthly*, technical, financial, and administrative difficulties to successful planning are so great in India that we cannot initiate an ambitious programme for full and effective utilization of our resources at once. Planning will have to be tuned with the degree of dynamism than can be infused into our institutional set-up. These considerations, unfortunately, do not, and cannot, favour our aiming at an objective of full employment of our resources in the very first attempt at planning and reconstruction. We must fix our target at a lower figure and the industrialists' attempt at mobilizing the resources to the extent as would be sufficient 'to raise our national income within a short time to *a level considerably above that required for meeting the minimum needs of life*'[5] seems to be the most modest and practicable objective. A more ambitious one would be impracticable and a more moderate undesirable. Starting from the stern reality of the excessively low standard of living and the grinding poverty in India, they present an outline scheme for developing the economy so as to provide a *per capita* income slightly above the objectively determined minimum required for healthy life and living to every adult in the country. This needs doubling the *per capita* income and trebling the national income—an objective well within our reach in

[5]*Ibid*, p. 7.

a short period of 15 years in view of our potentiality and in spite of the practical difficulties.

II

Our present national income is raised from three principal sources *viz.*, Agriculture, Industry and Services, each contributing 53, 17 and 22 per cent of the total and employing 66, 10 and 16 per cent of our population. In amount their contributions come to about Rs. 1,166, Rs. 374, and Rs. 484 crores respectively. It is apparent that agriculture contributes the highest income but suffers from the highest pressure of population and industry is the lowest in the rung from both the standpoints. Obviously, therefore, per man contribution is lowest from agriculture and highest from industry. Since standard of living is a function of per-man output, it is clear that our low standard of living is not merely the result of our backward agriculture but a joint product of low agricultural productivity and ill-developed industrial economy. It is the unbalanced character of our economy and the overwhelming importance of agriculture that lie at the root of our poverty. Restoration of an occupational balance is, therefore, the inevitable step to improve the situation. This is the accepted view of balanced economy understood in the special context of conditions in India, and the Bombay industrialists have *also used it in that very sense*. They have not used it in a novel sense for they propose the threefold increase in India's total national dividend to be "brought about in such a way that the present *overwhelming predominance* of agriculture would be reduced and a *more* balanced economy established."[6] Their emphasis is, indeed, on the word *more*, because they do not think it practicable to bring about a fully balanced economy within the time-limit provided for the purpose and in the peculiar socio-economic setting existing in India.

They aim at about a fivefold increase in the net output from industry and twofold increase in that of agriculture because the scale of industrialization necessary for producing the output would offer venues for employment, cause a shift of working population from agriculture to industry, reduce the pressure on land, and minimise difficulties to an intensive development of agriculture. The target

[6] *A Plan of Economic Development for India*, p. 7.

for industrialization has been fixed in due consideration of technical, financial and administrative difficulties. A higher level of industrialization would give greater scope for the transfer of population but as it would not be practicable to achieve it in view of financial and other limitations they propose a relatively lower objective. A still lower degree of industrialization would reduce the scope of population—transfer all the more and, thereby, hinder the development of agriculture also. Hence, they pitch up the industrialization at a level as would be practicable and aim at reducing the preponderance of agriculture to some extent at least. Raising of the contribution from industry and agriculture to the required level "would still leave our economy *mainly* agricultural in the sense that the greater part of the population would continue to be engaged in agriculture and allied occupations although the present *preponderance of agriculture would be considerably reduced*".[7] Thus we see that the starting point of the industrialists has been the need of a relatively *more balanced economy in the occupational sense.* The target of net output to be achieved and the scale of development in industry and agriculture to be brought about has been fixed with that end in view. Incidentally, the 500 p. c. and 130 p. c. increase in the net income from industry and agriculture brings about Rs. 2,240 and Rs. 2,670 crores of net income from the two sources, which Mr. Agarwala regards as equal and also the starting point of the industrialists' plan. Firstly, the two aggregates are not equal, for net income from agriculture exceeds by Rs. 430 crores, which is nearly one-fifth of the income from industry and one-sixth of the income from agriculture. Agriculture still remains the highest contributor to the national income. Secondly, the industrialists' aim has not been the equalization of net income from the two sources but the achievement of a more balanced economy in the occupational sense. Reduction of population-pressure on land being necessary for agricultural development, they have to provide opportunity for industrial employment. The opportunity that can legitimately be offered under the circumstances is of the level that can bring about, at the most, 500 per cent increase in net income from industry. The scope of population—transfer being thus limited, agricultural development cannot be of a very high intensity. The 130 per cent increase in agricultural output is the

[7] *Op. cit.*, p. 23.

logical outcome of the target of 500 per cent increase in industrial output, both being mutually determined and inter-dependent. They do not want "to develop agriculture only to such an extent that the total income yielded by it becomes equal to the total income yielded by industry"[8] but to develop both agriculture and industry so much as to have a more balanced economy in the occupational sense. They give priority to industry firstly because our potentiality in that direction has been very little utilized and secondly because that is the only practicable means for providing opportunity for population-transfer.

III

There are some who think that economic planning in India should attach greater importance to agriculture. Mr. Agarwala also seems to hold the same view, for he writes that 'our agricultural capacity is so vast that it can be made to take care of both the export market as well as internal requirements provided a sufficiently progressive and scientific policy is adopted in respect of it".[9] Elsewhere he advocates mechanization of agriculture so as to achieve equilibrium in terms of efficiency and also advocates an objective of a fivefold increase in agricultural production in view of the post-war expectations of an expanding market for agricultural products.[10]

The initial difficulty to the development of agriculture being the heavy pressure of population on land, the target for agricultural development and the policy to bring about the required progress will have to be fixed up in relation to our capacity to shift the surplus population. The proposal of Mr. Agarwala seems to neglect this vital aspect. The scope for extension in area under cultivation being limited, the fivefold increase in agricultural output, as proposed by him, can only be brought about by a high degree of intensive farming. He proposes the mechanization of agriculture. Firstly, the desirability of a general adoption of mechanized farming and deep-ploughing is questioned on technical grounds of its unsuitability to our soil-structure and peculiarity of our rainfall in particular regions. Mechanization, although necessary to restore equilibrium in terms of

[8] Agarwala, *Op. cit.*, p. 120.
[9] Do, *Ibid*, p. 122.
[10] Do. *A Critique of the Industrialists' Plan.*

efficiency, will have to be introduced only in regions where technical adjustment is possible. Even there the frictional difficulties will have to be overcome first. Mechanization to be a paying proposition will need adjustment in scale of farming, crop-structure, and the character of agriculture. The present system of small-scale subsistence farming shall have to be displaced by large-scale mechanized farming, which would create a huge army of the unemployed. The surplus population arising out of the change in the set-up shall have to be shifted to other channels of employment. To achieve that, an intensive industrial drive would be inevitable. Therefore, the policy of mechanization and an intensive development of agriculture would itself force up the target for industrial development. The success of our agricultural policy would be conditioned by the degree of industrialization that can be effectively brought about. Hence, the target for agricultural development and the line of policy will have to be drawn in relation to industrial expansion possible and practicable, if the occupational balance is to be maintained and the welfare of the countrymen to be enhanced. Our tempo of agricultural development shall have to be limited and reduced to a manageable proportion, as the percentage increase in contribution from agriculture to our national income will have to be tuned with the prospects of a percentage decrease in pressure on land brought about by the shift of working population from farms to factories and workshops. For sometime to come, at least, we will have to maintain small-scale peasant farming generally and introduce such improvements and reforms as would enhance the yield without creating complex and vexatious problems impossible to be effectively dealt with in the first stage of economic reconstruction.

Even if we do not change the set-up drastically, there is some scope of increasing the agricultural output. Dr. Burns[11] thinks it possible to increase the yield per acre of cereals by 20 to 50 per cent through using improved varieties of seed, applying more manure and better control of pests and diseases. The official opinion on the issue is that agricultural production can be increased by 50 per cent within a period of less than 10 years and there is a possibility of even 100 per cent increase in less than

[11] W. Burns, D.Sc., *Technological Possibilities of Agricultural Development in India—A Note.* Ch. III, pp. v-vii (Summary).

7

15 years by bringing science to the aid of cultivators and without any change in the setting in which agriculture is being carried on in our country.[12] With three-fourth of an acre of cultivable land per head even such an increase would not enable us to raise the standard of living and *per capita* income to a level required for the minimum needs of healthy life and living. If the rate of progress in agriculture is to be stepped up, a change in the set-up will be inevitable; without a transfer of population from land to other sources of income, per-man output cannot be increased so much as to yield a *per capita* income of the required magnitude. With the present size of holdings, army of landless labourers, complexity of land tenures, unemployment of labour power, intensity of rent and revenue burden, pressure of population, character of agriculture and poverty of the people, even the possibility of a general improvement in the quality of seed, fertilizer, irrigation methods and cattle power used by the farmer is rather doubtful. The cost involved would not be commensurate with the return. A reorganization of agriculture will have to precede any attempt at improving seed, fertilizers or cultural technique etc. As the success in that direction depends upon the possibilities of shifting the population, industrialization would be inevitable to be carried on a scale capable of shifting the maximum amount of surplus population practicable under the circumstances.

If India is to be self-sufficient in primary products, at least, 130% increase in primary production should be brought about within the next 15 years. For this even, there will be the necessity of changing the organization and scale of farming at least to some extent. The surplus population released on that account shall have to be provided for, which call forth a level of industrialization to precede and act as a receptacle for the unemployed. The 500% industrialization, under the Plan, will lead to a reduction in the pressure on land hardly by 10% and would be just sufficient to increase the net output of agriculture and industry to the required level. A higher target for agriculture would necessitate a higher percentage of population-transfer, and, consequently, a higher degree of industrialization. The 10% reduction in the pressure on land is only

[12]*Memorandum on the Development of Agriculture and Animal Husbandry in India.* I.C.A.R. p. 10.

a modest objective fixed upon in consideration of the practicability of the transfer in the initial stages, when many of the technical, institutional and social difficulties shall have to be overcome. Since they have to rely upon the market mechanism and the price and income system to bring about the necessary transfer they could not but fix the limit of probable transfer at 10% of the population. The market forces do not cause a quick response on the part of the working population in rural areas who are used to stay-at-home habits and, therefore, discount monetary gains as against the advantages of being nearer home and close to their kinsmen.

Further, the overwhelming importance of agriculture in our economy and the acute pressure of population on land is a product of historical forces. In the 17th and early 18th century, India had a highly advanced industrial system, in spite of the fact, that the bulk of the population even then got their subsistence from agriculture. Every village and the country as a whole had a well-balanced economy with its two sectors of industrial and agricultural economy linked together. They did not simply supply the needs of their own country but also exported the products to far-flung regions. The industrial revolution in England and the political changes in India produced an impact on Indian economy, caused the destruction of Indian industries and the serious concentration of population in rural areas. The evolution of big industries has been too slow to absorb the surplus population. Side by side, there has been the phenomenal increase in population, which, having no other outlet for employment, had to add to the pressure on land. Hence, the overwhelming importance of agriculture is a symptom of India's economic decadence and is relatively of recent origin. If things are to improve on right lines the vicious circle has to be broken by providing new openings for the employment of the people, which cannot be done except by an intensive industrial drive. Industries first is, therefore, the logical beginning of any effective programme of economic development in an overpopulated country, like India.

IV

A higher target for agricultural production can be fixed only if we can be sure of a foreign market sufficiently extensive for a profitable absorption of our surplus produce. Prospects of our agriculture being developed into a profitable export-industry would depend upon our capacity to supply

the products needed by foreigners and at a cheaper rate than other primary producers. This would need firstly our crop-planning to be adjusted to the pattern of post-war international demand of agricultural products and secondly, the productivity of agriculture to be so much enhanced as would enable us to release the supply at lower cost and to compete with the rival producers favourably. In both these respects our position in the near future would not be very strong.

Every country is trying to raise the nutrition standard of its people. But what is the guarantee that such a policy would push up the foreign demand for *our* produce considerably? Further, how far would the 'great demand for agricultural raw-materials that would be created by the rapidly expanding and progressing agricultural economics of foreign countries committed to raise the national dividend and the *per capita* income of their people in terms of money and goods and services"[13] create a market for our products? Countries planning to raise the nutrition standard are essentially anxious to make the protective foods take their rightful place in the diet of the people and are, therefore, aiming at solving the problem of malnutrition. The expected increase in foreign demand would, therefore, be in protective foods and we cannot benefit from the increased demand unless we can produce a surplus in protective foods from our farms. If our agriculture is to be reorganized so as to become a successful export-industry increasing emphasis shall have to be placed on dairy-farming, live-stock rearing, market gardening and horticulture. This would be a fundamental departure from the present situation when our agriculture is primarily a cereal producing industry.

Would it be a desirable policy when our country is suffering from a shortage in food supply? Can we afford such a reorganization when we belong to the category of a food-deficit country? Our immediate problem is to increase the production of food-grains so as to check starvation and famine. To us, therefore, the problem of eradicating malnutrition is only secondary to the major problem of abolishing the serious degree of under-feeding in our population. The reorganization of agriculture so as to raise a surplus in protective foods would entail an encroachment upon the area under food-grains excessively and

[13] Agarwala, *Op. cit.*, p. 121.

cause still more shortage. We can indeed afford some decrease in area under food-grains provided the efficiency of agriculture is increased to the maximum extent possible under the setting by bringing science to the aid of cultivators. It has been estimated that our production in cereals and pulses should be enhanced by 10 and 20 per cent respectively so as to make our country self-sufficient in these items.[14] Dr. Burns is of the opinion that our cereal production can be enhanced by 50 per cent and so if the scientific methods are adopted we can raise the required amount of cereals from less acreage than now devoted to cereal production. But such a reduction would not enable us to raise a surplus amount of protective foods when the types of farming needed to produce them are yet to be scientifically organized. To provide a well-balanced diet and the necessary protective food to our own people it has been estimated [15] that we must increase the output of fruits by 50%, vegetables by 100%, fats and oil by 250%, milk by 300%, and fish and eggs by 300%. We can be exporters in these items only when we can produce them much above our own needs. Since our capacity of production in these is limited and there are many socio-economic difficulties hindering the scientific organization of such special types of farming in India, it is doubtful if we can raise such products on a scale and at a cost as would enable us to compete successfully in the international market. Dr. Burns[16] estimates the probable increase that can be brought about by better feeding. scientific breeding, and proper management, in milk from cows : 75% ; buffaloes : 60% ; and goats : 100%—in all 235% ; and in eggs only 80%. Even for meeting our own requirement there would be the necessity of an extensive as well as intensive development in dairy and poultry-farming, which is difficult to be easily achieved in view of the difficulty of increasing pasture-lands, supply of fodder, concentrates and roughages for cattle, limitations imposed by the tropical climate and the institutional difficulties to successfully organizing efficient farming of the above types. In fats and oil 250% increase plus the extra amount needed for manurial purposes and the supply of concentrates to cattle population would require an increase in acreage under oil-seeds. For making the country self-sufficient

[14] *Memorandum*, Ibid, p. 2.
[15] *Ibid*, p. 2.
[16] Burns, *Op cit.*, pp. 109-111.

in these, the needed increase in acreage is possible without much encroachment upon other types of farming. But for export purposes an excessive encroachment upon land under other uses will be inevitable. Thus, it is clear that the reorganization of agriculture so as to enable our country to become an exporter in protective foods is neither desirable nor practicable in the immediate future. In the initial years, at best, we can provide our country with as much food-grains and protective foods as would serve the minimum needs of our population. We can, indeed, raise a surplus of food-grains easily, but the expansion in foreign demand would not be in that direction.

In respect of commercial crops also the position is not much different. Our principal products in this category are: Cotton, Jute, Oil-seeds, Tea, Coffee, Tobacco, Condiments and Spices, Opium and Sugar-cane. There is no reason why there should be very significant increase in the foreign demand of tea, coffee, condiments, spices and sugar-cane. The likely increase is expected in that of cotton, jute, tobacco and oil-seeds In cotton and tobacco our capacity to take full advantage out of the increased demand is limited by the fact that our products are inferior in quality to foreign products, and we suffer a disadvantage in competition incidental to that fact. In raw-jute, the demand would not show very great increase because the facility for jute manufacture to be developed on profitable lines in other countries is not very great. On the other hand, foreign countries have begun using methods and devices to displace the use of jute products. Oil-seeds are the only products in which substantial increase in demand is likely to take place.

Some scope, although a limited one, is, however, there for our exports to increase in these items. But is it desirable for us to export such goods with their inherent value to be exploited by foreigners when we can ourselves use them to manufacture the finished goods. Why should we not develop our industries to manufacture the final goods and export them to other countries rather than feed the expanding industries in other agricultural economies by our own potentials? If they can expand on the basis of our raw-materials why should we not take full advantage of such raw-materials and aid the expansion of such industries in India? Why should we remain backward, nay beggar, and allow others to become rich by exploiting our own potentials? We can be generous only when the raw-materials

can be in excess of our own needs. Under a planned industrialization our needs will increase and, therefore, in the near future the surplus margin would be of a limited order. Since the production of these can be increased within the limits imposed by geographical, technical and economic factors, we can acquire a huge surplus so as to have a vigorous export-trade only if we keep our industrialization at a low level. Such a policy would limit the prospects of agricultural development and, therefore, exercise a restrictive influence on the output of raw-materials also. If industrialization is speeded up internal demand for raw-materials will increase and with the limited scope for increasing the output of raw-materials the surplus cannot be of a very high level. In the circumstances, therefore, the most desirable course would be to develop industries, increase agricultural output to the level desirable and practicable, feed up our own industries and export the surplus which remains. The international trade in raw-materials cannot be a sound and desirable basis of our agricultural development. Our agricultural progress should be tuned with our own industrial development primarily and foreign trade allowed to adjust to the position thus obtained. This does not mean that our trade in such goods would decline or should be allowed to decline. It only implies that in view of the inherent difficulties to snatching a lion's share out of the expanding demand for raw materials in foreign countries and its undesirability when there is sufficient scope and facility for industrial expansion in India, our agricultural policy should not be wedded to the prospective international demand. In the immediate future we should primarily feed our own men and machines and only, secondarily, avail of the opportunity offered by international demand so far as we possibly can.

Even our capacity to increase the output in cotton, jute, oil-seeds and tobacco is not unlimited. The scale of farming, the technique and methods cannot be revolutionized unless the obvious difficulties discussed before are removed. Application of science is likely to increase the output even under the present system of farming. But the probable increase we can expect would be more or less counter-balanced with the increase in internal demand, and the level of exports would not show a very marked increase over the present order. It is only possible to do so, if our industrialization is of a lower intensity, a step highly undesirable and against the interest of even agricultural development.

On the other hand, the prospects of an extensive foreign trade would be conditioned by our capacity to compete with the rival producers. In this respect our position is to-day hopelessly weak and it is not likely that even in the next few years our productivity would be so enhanced as to raise our competitive power over other countries. To-day our agricultural efficiency is extremely low, while our rivals have highly improved their productivity by rationalization of agriculture. With the aid of mechanization, artificial manuring, improved cultural technique, regulated watering and drainage arrangements, scientific crop-planning and rotation of crops and application of the science of plant-breeding and genetics, as well as, by organizing large-scale farming on capitalist lines, they have enhanced yield and reduced cost per unit of output very considerably. Our crude technique, poor capital equipment, inefficient labour, uncertain and irregular watering, unscientific crop-rotation and natural vagaries supplemented by the small-scale and subsistence character of farming has kept up the cost per unit and made it possible to raise a very low yield per acre. Intensive development of agriculture would indeed improve our position but as the prospects of intensive farming are handicapped by our overpopulation and the operation of diminishing returns in agriculture, which has been practised in this country since time immemorial, it is doubtful if in the near future our position would be relatively stronger than other countries, most of which have a rich reserve of virgin soil and possess inherent superiority owing to their late start and less pressure of population. On the other hand, they have got a headstart in rationalization and modern technique of farming which would always enable them to keep ahead and have a competitive advantage in primary production. It is doubtful if we would be able to compete favourably with the American, Canadian or even Australian prairie and large-scale farmers in near future.

Thus we find that the likely increase in foreign demand of primary products would not be of much material benefit. to us. A reorganization of agriculture with the explicit aim of deriving benefit out of the pattern of international demand would be undesirable and impracticable in the near future ; nor is it likely to increase our capacity to produce and market our agricultural products more favourably than other countries. Hence the only objective realizable and desirable for the immediate future can be the

self-sufficiency of our country in food and raw-materials and maintaining *status quo* or slightly better position in the export of primary products. Bombay industrialists' target of 130% increase is capable of realizing such a purpose effectively, for it would not only enable us to be self-sufficient but also afford a margin for meeting some increase in foreign demand of primary products.

Under the plan the expected increase in the demand for agricultural output will be composed of the demand for raw-materials, food-stuff and fodder and some miscellaneous products. Since two-third of the industrial expansion would be in the basic industries, which require non-agricultural raw-materials, "the additional demand for agricultural raw-materials which would follow the scheduled rate of expansion in industry would be of the order of Rs. 400 crores".[17] Similarly on the basis of the scheduled rate of growth of agricultural income and the income-elasticity of demand for food-stuff at each individual income estimated in the manner suggested by Prof. Bowley and Mr. Allen, the probable demand for food-stuff has been estimated by the *Eastern Economist*[18] at Rs. 1100 crores at retail prices. The aggregate demand on these accounts comes to Rs. 1500 crores at retail prices or Rs. 800 crores at harvest prices. The Bombay industrialists estimate the increase in agricultural income or conversely the value of agricultural output recording 130% increase as Rs. 1500 crores at harvest prices. There is, thus, a surplus of Rs. 700 crores over and above the internal demand for raw-materials and food-stuff. A part of this will be covered by the demand for fodder and miscellaneous products and even then a margin will be left to meet the foreign demand. Therefore, the 130% increase does not only provide the entire needs of home consumption of primary products but also offer a margin for the probable increase in foreign demand.

In the immediate future, the best interests of our country would be served only if we do not aspire to become large-scale exporters of primary products, for our success in that direction is not sure and easy. It is only at a later stage that we can possibly become exporters when the obstacles to organizing large-scale mechanized as well as special types of farming would not hinder us rigidly from

[17] *Eastern Economist*, March 3, 1944, p. 324.
[18] *Ibid*, p. 324.

taking a bold step in that direction. Our economy having become fully balanced say 30 years hence, our agricultural productivity having been increased to the fullest extent and our economy integrated, coordinated and efficiently organized right from the fields to the markets, our competitive power would be strengthened and enhanced so as to enable us to challenge our rivals in the open international market both in our produce from the fields as well as the factories. Such a possibility is not imaginary ; for, economic history affords plenty of examples of countries weak and inefficient at one stage having become formidable rivals and competitors in the open market by bringing about a planned progress in a sheltered economy. It is strange, how Mr. Agarwala is so pessimistic in this respect and why he doubts our capacity to become exporters some time hence, particularly when we would not be going out of the international market even now. We would rather be improving our position slightly even under the limited objective scheduled in the plan. The industrialists have always emphasised the relativity aspect in their scheme. If they are autarkic, as some critics think, they are so only in the relative sense and as an expedient they advocate a quasi-autarkic policy for the betterment of the country in the near future, if at all.

They deliberately put the target for agriculture low but nowhere advocate the cutting down of our foreign trade in primary produce. Their idea is that in respect of agricultural commodities India should *as far as possible* aim at feeding her own population adequately and should not *aspire in the initial years of planning* to export to foreign markets. They indeed give primary importance to crops necessary for home consumption in their plan for increasing production generally. Since the distribution of area under different crops now is not based on any scientific principle it would be inevitable to readjust the area under cultivation in conformity with the objective and methods implied in the plan. For instance, from the standpoint of acreage, our agriculture is over-weighted with cereal farming ; in the case of raw-materials the allocation of the area is determined by the cash needs of the cultivator, level of demand and the productivity of agriculture. Since under a planned agriculture, productivity is likely to increase, some transfer of area under cereals to either crops would be possible and even necessary. Similarly the transfer of area under raw-materials would have to be done in view of the enhanced productivity and in keeping with the

probable trend of demand. Area under such raw-materials whose internal and external demand is bound to increase would have to be increased ; while acreage under those having inelastic or less elastic demand shall have to be decreased as a lower acreage would be sufficient, with improved productivity, to meet the increased demand, if any. Area under sugarcane, cotton and oil-seeds will have to be increased ; while area under Tea, Jute, Tobacco will need reduction.

In view of the discussion given above, I find no contradiction in the scheme postulated by the industrialists. Their proposal is not based on absolute autarky for agriculture ; but relatively self-sufficient conditions in the country with sufficient margin for some increase in exports even is the true objective of their agricultural plan. The future of our commercial crops need not be dark and there need not be any tangible reduction in the income of the cultivators or the country on that score. Rather, there is bound to be an increase in income in view of the growing internal demand, increase in productivity, and some improvement even in foreign trade in such crops. On the other hand, a scientific crop planning would solve our food problem, satisfy our needs for raw-materials, slightly improve our foreign trade and also provide stability to our agricultural economy in the initial years.

Foreign demand being conditioned by the international situation, fiscal and economic policy of the foreign nations, conditions and facility for trade and transport, and economic temper of the times, does involve a serious degree of uncertainty. We cannot be sure of our foreign purchasers continuously demanding our produce. It will depend upon the conditioning factors,—subjective and objective,—that determine the preferences of the purchasers We can only induce them to purchase but cannot be sure if our methods in that direction would be effective. The uncertainty is not merely due to our weak marketing organization and the incapacity of our agricultural economy to be elastic and adjustible to the variable demand patterns. It is not our own weakness but agriculture as such cannot be expected to show the degree of elasticity comparable to other channels of production. On the other hand, the variability of demand patterns is due to forces mostly beyond the control of the producers and, therefore, there inevitably arises the uncertainty which can be safely avoided in a big country like India having a wide internal market to consume its own products.

Finally, the logic of the above arguments itself indicates that there would not be difficulty in our maintaining a favourable balance of Rs. 600 crores. Firstly, our exports in primary produce need not decline, rather they would tend to increase to some extent. Hence, the fear that 75% of the total amount appearing on the credit side of our balance of account would be wiped out is baseless. Secondly, recent trend in our export trade indicates the growing importance of our manufactured goods in our exports. With the planned progress in our industrial system, its productivity would inevitably increase and lend support to an increase in that item. Particularly in regions round about the Indian Ocean *e. g.*, S. E. Asia, Eastern Africa, Arabia, Persia, etc., a close proximity to the markets would favour our exports in manufactures. Lastly, our creditor position in the post-war period and also our enhanced credit would cause a flow of funds into our country. In view of all these factors affecting our balance of trade, I do not understand why should it not be possible for us to maintain a favourable balance of Rs. 600 crores in the initial years of planning.

To conclude, I find, that the industrialists have not purposely tipped the balance in favour of industries, but have fixed up the targets consistent with their whole scheme, and their objective and in consideration of the practical difficulties involved in planning in our country for the immediate future.

ECONOMIC PLANNING AND AGRICULTURE

BY

A. N. AGARWALA, M.A.
University of Allahabad

EFFICIENCY OF PRODUCTION, adapted to the particular resources and circumstances of the country and to its best opportunities for specialization in trade with the rest of the world, not mere imitation of the types of production that have expanded most dramatically in other countries, is the key to economic advancement.

—*Eugene Staley.*[1]

I have been drawn into several controversies not only in the pages of this *Journal* but elsewhere as well for my views regarding the place of agriculture in an economic plan for India in general and its place in the Industrialists' Plan in particular. The arguments raised by my critics again and again are not always new though sometimes they have been expressed differently. The above article by Mr. Harbans Lal criticising my views affords me yet another opportunity to repeat what I have already stated earlier.

I may be permitted to express my feeling that at the present juncture there is not so much need to discuss the problem of the right place of agriculture in a plan, as to find out the ways and means of removing the hurdles in the path of economic planning in India. To repeat what I had the occasion to observe some time back "it is not so much in making a plan as in overcoming these difficulties that the main struggle lies".[2] These difficulties are economic, political and social; and whereas planning is impossible unless political obstacles are removed, it is bound to remain difficult in the face of economic and social hurdles. It is, therefore, important for the economists, if they wish to be realistic, to face facts and tackle this aspect of the matter. This was the burden of my much-misunderstood and wrongly-criticised book entitled *Pessimism in Plan-*

[1]Eugene Staley, *World Economic Development* (Montreal, 1944), p. 5.
[2]See my *Pessimism in Planning* (Allahabad, 1944), p. 306.

ning which seems to have disagreed with the self-complacency of those who fondly talk about planning as if they will get it merely for the asking. I, therefore, do not attach to the problem of the place of agriculture in an economic plan for India any measure of timely realism and practical value. At the present stage it is only an academic issue and it is because I do not entirely deny its value in that form that I am entering into the present controversy.

Before facing the important issues raised by Mr. Lal in his article, I deem it necessary to say that when I state that the industrialists have failed to give to agriculture due importance, my reference is to the manner and degree of their proposed utilization of our agricultural resources, or what may perhaps be less satisfactorily called the quantum of the output and the efficiency of the technique, management, etc., aimed at by them as related to our desirable potentialities in these regards. In particular, I do not mean (*a*) that a larger percentage of population *must* permanently be allowed to remain dependent primarily on agriculture, or (*b*) that a larger amount of capital *must necessarily* be invested in agriculture as compared to industries for all the time to come, or (*c*) that industrialization *must* be postponed with a view to give preference to agricultural growth, or some such thing. Most briefly put, my suggestion is that we should employ in agriculture a desirable degree of mechanization and other efficiency-methods, so that our agricultural resources may be exploited fully and in the best possible way, our agricultural output may increase at diminishing cost per unit, and this additional output should after meeting national demands be exported to foreign countries under the auspices of a strong national Government capable of accomplishing this task scientifically, energetically and diplomatically, *without any prejudice to the industrial development of the nation within desirable limits.* The same applies to industrial development absolutely and relatively with regard to agriculture. The development of both industries and agriculture must be given full and free scope, though there may be certain preferences and priorities with a view to smooth out points of conflict the chances of which will be very few if the planners strictly follow the doctrine of full and best employment. Economic development of a backward nation comes to consist in industrial development only at a later stage; in the beginning, economic authorities are agreed, greater economic advancement can be achieved by fully developing and exploiting primary industries. The growth of

primary industries itself is associated with a simultaneous development of secondary and tertiary production though the rate of the former far exceeds that of the latter in the beginning; but after agricultural development has reached the saturation point, the working population dependent on secondary and tertiary production begins to increase and income levels begin getting higher.[3] It is possible, as happened in the case of the U. S. S. R. or even Japan, to abbreviate this process of economic development; but in a country like India the cost of such abbreviation may be expected to be rather heavy. In any case, such an abbreviation must not be so shaped as to run over the necessary and useful agricultural development for that will be inimical to our best economic interests. Most of the backward nations like China, Chile and Latin American countries are chalking out programmes of economic development in this light; and India, though having far greater capacity of making progress than any of them, may very well follow their salutary example. We must not dogmatically stick to the idea that only an over-industrialised country can be rich. Denmark and New Zealand have high standards of living which are rooted in "intelligent agricultural specialization." Though U. S. S. R. has a highly developed industrial economy, she is very careful and watchful to develop her agriculture as well.

The theory of full employment shows that the richness of a country lies in developing all its resources—agricultural and non-agricultural—to the fullest possible extent and in the best possible manner. There are some countries like U. K., Germany and Japan which are destined to be mainly industrial, for their agricultural resources are meagre and of a low order. There are, on the other hand, countries like U. S. A. and U. S. S. R. which are rich in both agricultural and industrial resources and are developing both in a properly co-ordinated manner. They at one time were more agricultural than industrial but the march of time has reversed the position as was only natural. We in this country are somehow fascinated by the countries of the former class; and even when we look to the countries of the latter class

[3]See Staley, *World Economic Development* (Montreal, 1944) *Introduction.* Also Colin Clark, *Conditions of Economic Progress* (London, 1940), chapter V.

we confine ourselves to the industrial aspect of their development to the exclusion of their agriculture. We have somehow come to believe that if we develop industries with single-minded devotion and leave agriculture to its own fate,we will become as rich as, say, the United Kingdom. This cheap imitation of the exterior form, to the utter neglect of our own resources and capacities, will not make us achieve anything substantial and very soon the disillusionment will come. Large-scale development of the industrial sector of our economy should be a natural growth, not a forced accomplishment or an artificial transplantation. It would come of itself for as we exploit our agricultural advantages the point of saturation will draw nearer and we would then be left increasingly free to devote ourselves entirely to our industrial advancement. But if we leave our agriculture just in the present shape of inefficiency, merely adopting certain inadequate and name-sake measures, and set about to start new industries one after another, we will soon discover to our sorrow that our standard of living has not risen as much as it would have done had we given proper importance to agriculture and developed our agricultural resources fully in time. For prosperous agriculture means huge internal demand for industrial goods, ease and facilities in securing raw materials, profitable export markets, command over foreign exchange and an adequate and steady supply of factory labour. By simply imitating a foreign economy-structure we cannot bring about our maximum material prosperity in any lasting measure. We should, on the other hand, study the underlying principles of the material prosperity of foreign nations and follow them in preference to the outward shape of specific bodies economic. If this is clearly grasped, many of the difficulties regarding the right place that should be awarded to agriculture in an economic plan for India would be removed.

I

My critics all agree to the theory of full and best employment; and I am glad Mr. Lal is also its strong advocate. But this, he says, should be the "ultimate ideal", for this may not be possible of achievement for a country "at once" in the very first attempt. This theory, in the words of Mr. Lal, means that "resources are fully employed and equitably distributed over channels which promise best returns." Now, full employment (in the literal sense) may

not be possible all at once; but there is no reason to believe that equitable distribution cannot be possible during the course of 15 years of a planned economy and must remain a distant "ultimate ideal"! Moreover, full and best utilization should be achieved in relation to the existing set-up. It would be unscientific and irrelevant to conceive of full and best employment in a sort of vacuum; it must have relation to existing conditions and difficulties. *Under any given conditions*, efforts must be made to secure the *fullest and best possible* utilization of our resources. This is the only sense in which this theory can be of any practical aid to planners. This being so, to talk of "obvious difficulties" in the way of fullest and best utilization is to put the cart before the horse. For the order and manner of employment must naturally be determined, not off-hand or in relation to an imaginary economy, but in relation to the actual conditions and difficulties. Mr. Lal's declaration of our inability to follow full employment policy means that we are unable to put our resources to the fullest and best possible use! We wonder if he has understood the implication of what he states.

He supports this policy at first. But later on he forgets the equitable distribution part of it and insists that according to it full employment in the literal sense must be achieved "at once" which he finds is not possible in India. Hence this theory is inapplicable to us! It is important to remember *(i)* that according to this theory, we should try to put our resources to the *best* possible use, and *(ii)* that we must employ them to the fullest possible extent and in the best possible manner, which the Industrialists have not deliberately done in their ***Plan***. Many of the difficulties of Mr. Lal arise because he ignores these two points.

May we also enquire that if we accept Mr. Lal's lead and abandon this theory for good, which in other words means that we give up putting our resources to the fullest and best possible use under existing circumstances, what is the other available principle which can be properly followed? We are not aware of any other rational economic norm that can offer any guidance in the absence of this doctrine. Mr. Lal would follow as well as abandon this theory in the same breath; but he cannot eat his cake and have it too at the same time! The manner in which the Industrialists have worked out their details is to plan for 500% increase in aggregate income for

industries and to fix a 130% target for increase in aggregate income from agriculture which would be enough to support fivefold industrialization. This aggregate income-equilibrium which incidentally emerges by coincidence gives them the occasion to give to this the name of balanced economy, which we have shown has no economic relevance.

Mr. Lal uses such vague phrases as "at once," "at a stretch" and "in the first attempt," the meaning of which is not at all clear. If these words mean a decade and a half, which is the time-space of the Industrialists' Plan, and he means to suggest that during this period we cannot hope to make an approach to the fullest and best possible utilization of our resources, I do not think there are many who will agree with him or go jubilant over the plan he is supporting. As a matter of fact, U. S. S. R. did wonders during this period in face of very great difficulties; and we in this country are convinced that we can do as much as, if not better than, the Russians if *we proceed in the right manner.* The Industrialists' Plan is really a combination of 3 five-yearly plans; and if this long time is to be regarded as "at once" or "the first attempt," we do not know if economic planning can make much sense to a country in which the average duration of life does not exceed 22 years!

Mr. Lal accuses me of making "the remark that the industrialists (*sic*) are ignorant of the principle of balanced economy", and draws my attention to a sentence in this *Plan* making a reference to this doctrine. In this, I am afraid, Mr. Lal has been less than fair to me. For I nowhere say that the Industrialists do not *know* this principle. On the contrary I have myself referred to a sentence in their *Plan* where this principle has been paid homage. I clearly mentioned in the course of my article that the Industrialists pay their homage to the doctrine of full employment in a sentence on page 7 of their Plan. "But as they want to develop agriculture only to such an extent that the total income yielded by it becomes equal to the total income yielded by industry, and not to the fullest and widest extent which our great agricultural advantages render possible and likely, their proposals become inhibitious to agricultural progress in violation of the above-mentioned economic doctrine."[4] I need not state that to say that

[4]*Vide* my article "The Place of Agriculture *vis-a-vis* Industry in the Industrialists' Plan," *Indian Journal of Economics*, October, 1944, pp. 119-120.

the Eight Industrialists pay homage to this doctrine but do not follow it, does not tantamount the statement that they do not know it.

Mr. Lal seems to suggest that the Industrialists were forced to keep the target of agricultural production so low because of what he calls socio-economic difficulties which are his nightmare and which he disproportionately magnifies all through his article. But this is his own understanding (if not the misunderstanding) of the situation, not the position of the Industrialists who frankly declare that the target for agriculture "has been *deliberately* fixed low" (italics ours) for certain reasons which I have examined threadbare elsewhere and found untenable.[5] They as a matter of fact do not make provision for the fullest and best possible use of agricultural resources but devote serious attention to the development of industrial resources only, leaving the agricultural resources inefficiently and partly employed and not paying even scant attention to other aspects of our economic system, to what may be called the Oliver Twists of Indian economy.

Mr. Lal states that the modest aim of trebling our national income has been fixed taking into account our existing difficulties in the way of fullest mobilisation of our resources. Now, in the article under criticism I was not referring to the extent to which the Industrialists aim at increasing our aggregate national income. I was only referring to the importance of agriculture *vis-a-vis* industry in their *Plan*. Obviously when I say that they have not given as much importance to agriculture in relation to industry as they should have done, I must not be necessarily understood to declare that the income-target fixed by them is low. That would be altogether illogical. For in case I am right and by the same token they are wrong, the same income-target could perhaps be achieved with less real cost and maybe in a shorter space of time by following the suggestions made by me. In other words, while one *may* agree with their income-target, one *may* disagree with the way in which they propose to utilize economic resources. This being so, the whole argument developed by Mr. Lal in Section I of his article falls to the ground. As a matter of fact "modest aim" is not something counter to "full employment or balanced economy doctrine". Even a modest aim

[5]See ***Pessimism in Planning*** (Allahabad, 1944), pp 163-176.

must be achieved in a balanced economy manner, *i.e.*, by putting the resources to the best possible use.

To discuss the issue of the income-target on its own merits, I am inclined to believe that while the traditional planning technique requires the setting up of an aggregate national income-target and making efforts to accomplish it, the target itself must take into consideration the resources that will be available for mobilisation and the best possible manner in which they can be exploited. If this is correct and it is agreed that we must develop our agricultural resources fully in relation to internal and external markets and beyond the limit suggested by the Industrialists as I have been all along pleading, it would follow that our national income can be pushed up even beyond 300%. As I observed in my *Critique*, "This extension of the scope of the *Plan* and the investment of further resources would, naturally enhance our *per capita* income and aggregate national dividend beyond the target laid down by its authors".[6] I do not think that the difficulties in the path of our economic progress can be so finely weighed and mapped out as to enable us to swear by 300% increase in our national income. Nor would it help us to unduly inflate the obstructions and make them bugbears instead of taking their measure and setting about to tackle and solve them systematically and methodically.

However let us examine Mr. Lal's four arguments why the income-target must be kept modest in this country, which he does by giving negative reasons and without examining the issue from a positive angle. His argument boils down to this : Since there are difficulties in the way of economic planning in this country, we cannot push up our income by more than 300% in the course of 15 years ! In this shape the argument becomes ridiculous. What is the sanctity behind this 300% increment? Simply because the Industrialists have given this figure and perhaps Mr. Lal is out to support them, is not an adequate reason why everybody must worship it. In fact Mr. Lal out-Industrialists the Industrialists in this regard, for even they do not swear by this figure. However, let us examine the difficulties that he points out.

His first difficulty is that we do not know fully about the potentiality of our resources. Now does that mean

[6]See my *Critique of the Industrialists' Plan* (Benares, 1944), p. 87.

that in such a case we can increase our national income during 15 years only by 300% ? Is it not possible that by the fullest possible and best possible use of our resources we may be able to push up this figure more? I do not think that the reply can be in the negative.

The second difficulty pointed out by him is that whereas the U. S. S. R. had "a clean slate' to start with, we do not unfortunately have one. It is, indeed, a mistake of fact to say that Russia had a clean slate to go by. That country had to face numerous difficulties many of which still continue, had to beat an "economic retreat", and had to give up many fond communistic ideas because of insurmountable hurdles in the way. It is, as a matter of fact, unimaginable that any country in the world having a history behind it will ever have "a clean slate" at any stage of a continuous chain of development and growth. It would be unpardonable to fail to take inspiration from Russia on the false notion that its planning experiment was imposed on a clean slate. It may, nevertheless, be accepted that Indian conditions are perhaps more difficult than Russian *at the present moment.* I have argued this point with the entire force at my command in the course of my book *Pessimism in Planning* and I am glad Mr. Lal holds the same opinion But my difference with Mr. Lal arises at the point at which he seems to conclude that therefore we cannot hope to more than treble our aggregate national income during the course of fifteen years or some such thing. I hold the view that in case the present impediments, which I have discussed in detail in the above-mentioned work, are allowed to exist and not frontally attacked, there is no denying the fact that we would not be able to make much progress. But we must not allow these difficulties to continue. We must include in our plan a programme to overcome them systematically, methodically and quickly. I cannot elaborate this point here for want of space but I have discussed it in *Pessimism in Planning* (Allahabad, 1944) to which a reference may be made. If we succeed in this matter we may perhaps be able to outstrip even Russia in our achievement.

Mr. Lal next fears that through long suffering India has become emaciated. "Independent India, therefore, shall have to plan for progress and betterment and work it out in a manner as would cause least suffering and hardship and bring quick returns." As to the first part of this

statement, I may be permitted to say that progress and betterment is the very aim of planning; and nobody who is criticising Industrialists' Plan wants anything other than that. Nor does anybody want that the cost and suffering of an economic plan to the masses should be heavy. These are elementary statements and do not have any relevance in this context. Mr. Lal would appreciate that the modest objective and fullest and best possible use of resources are not always co-extensive, and that a modest aim can arise out of partial or insufficient use of resources. Perhaps he would also agree that if we use your productive resources fully and in the best way, the masses would not suffer on that account. By giving *due* importance to agriculture in relation to industry, I do not think masses stand to lose. But they would surely suffer if the resources are allowed to remain partly idle or are used in an inefficient manner by covering every sort of inefficiency, lethargy and short-sightediness behind the cloak of imaginary and magnified difficulties.

Fourthly, Mr. Lal says that there are technical, financial and administrative difficulties in this country; hence we cannot follow the theory of full and best utilization. If that theory is understood to mean the best and fullest *possible* use of our resources, as it must naturally be in order to be sensible from a practical angle, we do not see any logic in this statement. This point has already been examined above and we need not discuss it afresh here.

On account of these four reasons, Mr. Lal believes that the income-target of the Eight Industrialists is "*the most modest and practicable* objective. A more ambitious one would be impracticable and a more moderate undesirable" (italics ours). I do not think Mr. Lal has been able to support his conclusion with adequate or plausible reasoning, and the way in which he defends the income-target of the industrialists, though not relevant to my article under criticism, appears to be wrong *ab initio*.

II

Mr. Lal begins his Section II by arguing, and quite correctly in our opinion, that "Our low standard of living is...a joint product of low agricultural productivity and ill-developed industrial economy." What, then, is the remedy? Make agriculture highly productive and make industrial economy well developed! That is exactly what

my position is. My criticism of the Industrialists' Plan is that they make satisfactory arrangements for the development of industries; but they wish to develop agriculture only to the limit to which it may be able to supply food and raw materials for the nation and not to the fullest possible limit, considered geographically as well as in point of efficiency, on account of imagined fears regarding the marketing of our agricultural produce. Their agricultural programme is wholly inadequate for raising the productive efficiency of agriculture to any appreciable extent.[7] But what is the conclusion which Mr. Lal derives from his above-quoted statement? It makes a curious reading as follows: "Restoration of an occupational balance is, therefore, the inevitable step to improve the situations." He gives up the question of the absolute development of the two economy-segments which he was discussing and jumps over to the problem of balanced economy which as we shall see below he also muddles up. Had he logically pursued his own statement, he would have come to the conclusion that the Industrialists have failed to give to agriculture due importance. However, now about his balanced-economy issue.

He says that balanced economy means "restoration of an occupational balance;" and that the Industrialists have also used it in that sense. But it is significant that he does not say on what page and where the Industrialists say it, unless they have left it to Mr. Lal for statement! Apart from it, one statement is as vague as the other and requires further clarification. A balance in agriculture and industry may have reference to (*a*) population dependent on each, (*b*) income derived from each, (*c*) volume of output turned out by each, (*d*) efficiency with which each of them is managed, or any other relevant criterion. Now so long as the problem of economic planning was not before the country in any imminent or probable sense, the term "balanced economy" was being used just to suggest that as there is pressure of population on agriculture, some of it should be diverted to industry or tertiary and secondary industries. But what is to be the measure of the optimum shift? This point does not appear to have been discussed or even faced. The implication is, however, clear. The shift should be of an order which might agree with the best and fullest

[7] **For full details, see my *Critique*, *Op. cit.*, Chapter 5.**

use of our material and human resources in relation to the existing set-up. In other words, balanced economy is merely another name of an economy patterned after the doctrine of full and best use.[8] Now Mr. Lal has observed, in Section I, that it is not practicable for the Industrialists to follow the full employment doctrine in India. It might be paraphrased to say that it is not practicable for them to follow the balanced economy concept in the occupational sense. To put it otherwise, when Mr. Lal says that the full employment doctrine has been found impracticable by the Industrialists during 15 years, it comes to this that either they find it impossible to bring about occupational equilibrium in our economy or they are not using the term "balanced economy" in the occupational sense.

That they have not used the term 'balanced economy' in the occupational sense finds support from the *small* degree of populational shift that would be accomplished during the fifteen years which their plan would cover. This shift, as calculated by the *Eastern Economist*,[9] is going to be of the order of about 10% only, which would not be sufficient. On a conservative estimate, it has been stated that India's national income would double itself if 15% of population were thus shifted and it would be trebled if an additional 10% is added to it.[10] If during the course of 15 years, this plan can shift only 10% of our population to industry and other pursuits and leave agricultural enterprises at almost the same level of efficiency, or we may better call it inefficiency, we cannot go jubilant over its accomplishment. The authors themselves do not handle the problem of occupational shift and the outcome of their proposals do not show that they have handled the problem of economic planning from that angle.

It is also clear that they do not want to establish economy balanced in the sense of efficiency; for as I have shown elsewhere there will be a wide gulf in the efficiency of agriculture and industry under the *Plan* in question. An output-balance is physically impossible for want of a common measure. Now if it is not populational or efficiency or output balance, what does this balance refer to? Obviously,

[8]This point has been discussed in my article in *I. J. E.*, Oct., 1944, p. 119.

[9]See *Eastern Economist* (New Delhi).

[10]See Eugene Staley, *World Economic Development*, pp. 5-6n.

to an aggregate income-balance. They say that if they increase the total income from agriculture by 130% and that from industry by 500%, the total income from them would go up to Rs. 2,670 crores and Rs. 2,240 crores. The two sums are almost equal; an artificial equilibrium thus emerges. It is in this sense then that they appear to have used the term 'balanced economy.' But this has no economic sanction and relevance. I have already discussed this point in detail in paragraph 5 of my article under criticism.

In this connexion Mr. Lal says that I regard the two sums, *viz.*, Rs. 2,670 crores and Rs. 2,240 crores, "as equal" but "the two aggregates are not equal." It does not really require a Solomon to see that there is a difference in these two amounts. But this difference is so small and the point itself such a minor one that I hardly expected Mr. Lal to try to make a case against me on this score. Secondly, he has conveniently ignored the term "*almost* equal" which I have employed in this regard; and lifted the word "equal" alone for exhibition so as to put me in the wrong. On page 119 (para 4) of my article under criticism I say, "The aggregate income yielded by both thus comes to be *almost* equal."

Mr. Lal gives an *obiter dictum* when he states that "the opportunity that can legitimately be offered under the circumstances (for population-shift) is of the level that can bring about at the most 500 per cent increase in net income from industry". What is the warrant, may we ask, for this precise view? He does not give any sound or well-considered reason in support of this statistical declaration.

III

Though Mr. Lal begins Section III by committing me to a view I believe wholly wrong, yet to me this part of his article is a more pleasant reading, for he says therein much that is in my mind. It incidentally helps me to remove a misunderstanding regarding my views.

Mr. Lal thinks that I seem to hold the view that India should attach greater importance to agriculture. By this he perhaps means that India should remain a preponderatingly agricultural country. I do not hold this opinion; on the contrary I believe that this opinion is totally untenable and absurd. I am surprised that Mr. Lal says that he

thinks that I hold this view *because* of my statement that "our agricultural capacity is so vast that it can be made to take care of both the export market as well as internal requirements provided a sufficiently progressive and scientific policy is adopted in respect of it". I do not see how from this statement can the above conclusion be correctly drawn, for it only says that India should have progressive and fully developed agricultural system. The aggregate income-relation of agriculture to industry would depend upon the state of our economic progress and would be a varying factor as I have already explained in the introductory portion of this article.

Mr. Lal says that I advocate an objective of a "five-fold increase in agricultural production in view of the post-war expectations of an expanding market" and says that this has been mentioned in my *Critique*, though he does not mention on what page. I have carefully gone through the above book but I have failed to find this statement. So far as I am aware, I have never said this. I believe such a statement to be unscientific and obstinate.

I welcome what Mr. Lal says in the remaining paragraphs of this Section. But I do not believe that the difficulties in the way of mechanization of agriculture are so great as he thinks. Mr. Lal counts small holdings, indebtedness, and poverty of the cultivators etc., as so many impediments in the way of mechanization, but if he thinks that the proposals of the Eight Industrialists to do away with these evils are adequate, the question of these obstructions remaining in existence does not arise. He quotes from Dr. Burns to say that output of agriculture can go up by adopting non-mechanized methods. But he does not take into account the opinion of Dr. Burns on mechanization in this country a few pages later. Dr. Burns is all for mechanization and believes that it can be usefully employed in this country.[11] The question of mechanization is linked to (*i*) the problem of export markets for agricultural products, and (*ii*) possibilities of shifting population to other alternative occupations. Mr. Lal discusses the first issue in a succeeding section and I postpone its examination to Section IV. The problem of population shift has been tackled by him in this section and I consider it below.

[11] See Dr. Burns, *Technological Possibilities of Agricultural Development in India* (Lahore, 1944), pp. 126-7.

He may be right in maintaining that if we mechanise agriculture, population will be displaced and will have to be employed in alternative channels. He says that it will have to be employed in industries, the term being used in the sense of what Colin Clark calls "secondary industries". But the shift can be made to tertiary industries also and even to certain branches of primary industries which are hardly developed in this country like dairy, fruit-farming, etc. The shift to cottage industries which are altered to agriculture in many cases would be quite easy in the sector of secondary industries. Moreover, mechanization of agriculture would create employment in machine-manufacturing, repairing, power-production and other branches; and the population which becomes surplus to agriculture can be absorbed there. There will be numerous opportunities for the employment of displaced labour and the process though usually painful can be reduced in its injury to the minimum by maintaining a proper co-ordination between mechanization of agriculture and growth of alternative occupations as far as possible. But supposing Mr. Lal is correct in saying that all the displaced labour have to be absorbed in industries (meaning thereby secondary industries) what would be the consequence? In that case, he says, the industrial development will have to exceed even the figure of 500%, as if it is something which I do not like. But I would welcome it with open arms. I am not against industrialization. I am against leaving our agricultural resources partly idle and inefficiently employed, when we can exploit them to our great advantage. I will not like our resources of any type—agricultural or industrial—to remain idle or badly employed. Both must be exploited fully and in the best possible manner. I am perfectly sure that if we march on this road, it will be only for some time that agriculture would remain more important than industry; after that point, India would get more and more industrialised. Economic history of the world amply supports this course of economic development.

I wish to make one or two things clear at this stage. Firstly, I may repeat what I have already observed above, that we must not suppose that the entire population that is displaced in the agricultural segment as a result of its mechanization will have to be absorbed in the sector of secondary industries alone. Secondly, we would be wrong to argue, and I fear I do not think Mr. Lal is correct to argue that way, that if this is so, let industries develop *first* and after they have

developed we may mechanize agriculture. If this course of development is allowed, for the sake of argument, what will happen is that shortage of labour will appear in the industrial sector here and there; and the economic development will face considerable friction and difficulties. One may indeed well argue, in a like manner, that let agriculture first be mechanized; we will later develop industries to absorb the population which is thus displaced. But both arguments will be wrong. Economic development, particularly under planned economy, must be a simultaneous affair, so that frictions and obstructions of this type are removed or at least reduced to the minimum. There will have to be chalked out proper plans for the re-employment of displaced population in agricultural sector in alternative fields with least delay and loss of human power and with minimum sufferings to the masses themselves.

IV

In the fourth and the last section Mr. Lal argues in his own self-satisfactory manner that we cannot produce enough agricultural produce to export to foreign countries, that foreign demand for our agricultural produce would not increase, and that we would not be able to face the competition of other countries in this field. He believes that all that our agriculture is capable of doing is to increase its output by precisely 130% which the Industrialists have fixed.

Mr. Lal asks for a "guarantee" that foreign countries would increase their demand for our agricultural produce in the post-war period. I regret to have to disappoint him in this regard as it is not within the powers of a student of economics to issue guarantees or to make forecast of the future precisely in the absence of relevant data. All that can be done is to study current trends and tendencies which can be reasonably expected to work themselves out more fully in the future and to make broad statements on this basis. This I have done; but more than this cannot be ordinarily accomplished. I do not think if Mr. Lal can give a guarantee that the demand for our agricultural produce would *not* increase in the world market! Leaving the problem of guarantee here, let us go into the details of Mr. Lal's reasoning.

We may be permitted to observe here that Mr. Lal seems to be so much obsessed with the difficulties in the path of agricultural progress that he does not think we can

increase aggregate income from this pursuit by more than 130% in a decade and a half. He unfortunately presumes that all the existing hurdles in the path of progress will not be solved but would continue to exist even under a planned economy, which is a fundamental error of many thinkers in this country. The hurdles in the way will be partly solved in the period preparatory to planning and partly during the course of the execution of the plan. More over, we must plan not only to increase production and consumption but also to remove the difficulties in the way. Indeed if a plan extending over a decade and a half, set afoot by a national and willing Government enjoying the confidence of the people, requiring a finance of Rs. 10,000 crores and presumably supported by a programme of removing hurdles in the way of economic development, cannot hope to work in the full and best employment manner, it should be called not a scheme for planning but a scheme for not planning.

Mr. Lal thinks that in the post-war period demand for cereals will not increase while the demand for protective food will increase ; and as we can produce only cereals, we cannot hope to increase our exports. In connexion with the first part of this statement I would like to bring the following points into account. *Firstly*, the countries exporting cereals at the present moment may more or less cease to export them, or at least reduce their exports in case they wish to raise the nutritional standards in their own countries to the desirable levels. Taking the case of even U. S. A. which is such a large cereal-producing country it has been estimated that the actual production of food-grains will have to be pushed up in order to satisfy home demand. The concentration on home demand by such countries will leave a gap in international supply to cereal-importing countries like Great Britain, Germany, etc. *Secondly*, the consumption of cereals would increase, though not much, in all the food-importing countries and thus a fresh demand for them would come into being. *Thirdly*, countries depending slightly upon agriculture, *e.g.* Great Britain, are now thinking of producing protective food like dairy products, vegetables, fruits etc. which can absorb a larger percentage of population on small area and of bringing their economies nearer to those of Denmark and Netherlands. The result will be—and they are conscious of it—that they will be importing food-grains in larger

quantities than before.[12] *Finally*, it must be remembered that business is, to some extent at least, a matter of capturing as large a slice of the existing demand as possible; and we can well make efforts in this direction with a certain degree of success. On account of all these factors, Mr. Lal's fears that the demand for our cereals in foreign countries will not increase is without any warrant.

Mr. Lal agrees that the demand for protective food will increase enormously and universally but he thinks that we do not have enough land for growing it in this country nor will we have enough land in future; and then there are several socio-economic difficulties besides. Mr. Lal does not furnish any statistical ground for this sweeping statement which appears to be wholly imaginary and fictitious. We are a big country and abound in population, cattle and land. Moreover, mechanization of agriculture would leave much land for other uses and this must be employed to the fullest extent to the growing of protective foods. Dairying, vegetable and fruit-growing and pig and poultry-raising require small areas and absorb a large number of persons. For countries like Denmark and Netherlands which are small in area and are densely populated such occupation is very suitable. Countries like Great Britain are, therefore, intending to develop them in preference to cereal-raising. It follows, therefore, that for us also having a large mass of employable population and enough land at present available or which can be made available, these lines are very suitable. It will be no use magnifying the socio-economic difficulties. As a matter of fact, many of the difficulties in the way will be removed by this *Plan* if it is put into practice. More can be done by working consciously in this direction and by attacking the impediments on all fronts including social, psychological and religious.[13] Far from thinking, therefore, that we cannot produce protective food for export, I believe we must take up this very profitable and eminently suitable line and develop it to the best of our abilities. Then there are vast areas in our country which remain uncultivated, extensive tracts which have been spoiled by erosion, and large fields which are left fallow every year. Had

[12] See Sir John B. Orr, *The Role of Food in Post-War Reconstruction* (Montreal, 1943), p. 10.

[13] See my *Pessimism in Planning*.

Mr. Lal taken care to consult any statistical publication relating to Indian agriculture, he would have discovered his mistake. Taking 1930-31 figure, for instance, net area actually sown in British India was 229 Mn. acres; whereas current fallows and cultivable waste other than fallow come to 50 Mn. acres and 154 Mn. acres respectively. The total area thus available for extending cultivation comes to 204 Mn. acres, nearly as much as is actually under the plough today. Mechanization and land reclamation will only add to this figure appreciably. There can, therefore, be no question of land shortage in this vast country of ours for some time to come at least. This being so, we must exploit all the chances of exporting protective food to other countries which Mr. Lal thinks golden, fix up the target for agricultural development beyond the figure given by Industrialists, and prosper!

As regards commercial crops also we have very profitable markets even now and they are capable of considerable expansion in several cases. Mr. Lal, however, fears that since the quality of our cotton and tobacco is inferior and as we do not sell them abroad in large quantities now, we must not expect their large exports under a planned economy. Now this is an illogical method of arguing a point. If inferior quality obstructs large exports, then by improving the quality we can expand exports. The conclusion should then have been that we should make efforts to improve the quality and not that we should plan for ceasing exports altogether or keeping them at the accomplished level. Not unless Mr. Lal can prove that India is incapable of improving the quality of cotton and tobacco even under planned economy, can he prove that exports of commercial crops cannot be increased in post-war years. But that would be altogether untenable and contrary to facts. During the last few years, in spite of all the disheartening conditions in existence normally in this country and as added to by the storms and stresses of this war, great progress has been made in the growth of medium and long staple cotton. The percentage of medium and long staple cotton to the total output was only 30% on an average in the quinquennium 1932-37, but this figure shot up to 38% in the quinquennium 1937-42; while in 1942-47 it was actually 60% of the total output.[14] Our achievements under a planned economy will be even of a high order. The efforts made for improv-

[14] See my article, "The Problem of Surplus Cotton Stock" in *Financial Times* (Calcutta), April, 1945.

ing the quality of tobacco at Pusa and Nadiad and by the Imperial Council of Agricultural Research are very encouraging. As regards jute, it is true that foreign countries are trying to find cheaper substitutes but if we can so develop and improve our efficiency as to be able to supply our jute at competitive and cheaper prices, there is no reason why it should go out of world markets or that its exports should not increase. As regards oil-seeds Mr. Lal himself thinks that their exports are likely to increase.

It, therefore, follows that we can increase the exports of cereals, protective food as also of commercial crops considerably if we make serious efforts in this direction, and the fears and doubts of critics like Mr. Lal are purely imaginary and inflated. We can produce vast quantities of agricultural commodities. We can also export them in near future in large amounts. We must not let unfounded fears and prejudices stand in our way of exploiting these opportunities fully to our advantage.

I need not give any detailed reply to such arguments of Mr. Lal as the following : (*i*) that by exporting our agricultural goods we would be exporting our potentialities and can better do by exporting manufactured goods ; (*ii*) that we cannot compete with foreign producers as they have the benefit of early start and are mechanized and rationalized ; and so forth. To an economist of the standing of Mr. Lal, I do not think it is necessary to point out that when we are producing for export according to the theory of full and best utilization, the question of "exporting potentialities" or doing better by producing manufactured goods instead does not arise. Nor would I advise him to develop cold feet simply because our competitors are mechanized while we are not. What we have got to do is to mechanize ourselves and see that we become so efficient, with State aid, protection and all other necessary helps, as to be able to beat them. If we fear foreign competition so much as to try to avoid it we cannot do anything but rot in the rut of autarky; and in course of time we will be beaten even there by foreign conquests, economic and political. We must not forget the principle of the survival of the fittest, or fail to try to be fit when we have the capacity to be among the fittest.

It is paradoxical that while Mr. Lal laments that our agriculture is incapable of producing for exports and that foreigners will not purchase an agricultural produce in large quantities and he does not want that to increase the exports of agricultural produce to foreign countries should

be the aim of planning authorities, he still hopes that "our exports in primary produce need not decline, rather they would tend to increase to some extent"! It is impossible to understand this logic. If he really thinks that our exports in agricultural produce would increase in spite of all these forbidding conditions and the niggardly programme of development drawn up by the Industrialists, he can easily appreciate the great capacity of our agriculture in this regard consequent upon a proper and adequate application to it of greater skill, more capital and better technology.

In case he sticks to the view that it is impossible for our agriculture to produce and sell in international markets (which we have shown is entirely wrong and imaginary), or that we must cease all agricultural exports so that we may use our potentialities ourselves, protect our economy from the danger of fluctuating prices of agricultural produce abroad and so forth, it automatically follows that the 75% items on the credit side of our exports will vanish, in spite of Mr. Lal calling it "baseless". As regards exports of industrial goods, Mr. Lal is right in maintaining that our exports in this direction would increase. But the main question is one of degree or extent of increment. Would they increase so much as to fill the void created by the cessation of our agricultural exports? That is the main issue and I do not think Mr. Lal would think that the exports of industrial goods can be increased to that extent. The main argument in favour of a rapid industrialisation of this country is not this that there are vast foreign markets which we can feed, but this that our vast internal markets which are at present supplied from foreign sources can with greater advantage be fed by ourselves. It would be deluding to think that a miraculous transformation would take place and in the post-war period we would transcend the bounds of natural gifts and advantages, emerge as an industrial nation of the western variety, satisfy all our internal demands as well as foreign markets giving a decisive defeat to seasoned industrialists of foreign countries.[15]

Mr. Lal is optimistic that our creditor position would ensure a flow of funds in this country. Our creditor posi-

[15] See my article "Planning and Post-War Trade Prospects" in *Investment and Finance*. Annual 1944, p. 18.

tion, as I have been consistently maintaining, is only there on paper and not of any substantial worth; and the passage of time is only witnessing this more and more clearly. We are also seeing that flow of funds to our country is not coming from countries like U. S. A. in spite of our creditor position for what it is worth because of our political status, which Mr. Lal does not seem to consider. Finally, even if foreigners are willing to invest capital in this country, will that give us a more favourable balance of trade?

Concluding Mr. Lal says (*i*) that the Industrialists have not *purposely* tipped the balance in favour of industry, (*ii*) that they have fixed up the targets consistent with their whole scheme, and (*iii*) that they have done so because of the existing difficulties. I have nowhere said that, as regards the first point, that the Industrialists have deliberately ignored the claims of agriculture because they wanted to develop industry. On the other hand, I have been repeatedly saying that it would be most unbecoming to attribute motives to the Industrialists for this perspective.[16] I also agree with his second point that the targets fixed by them are consistent with their whole scheme. Their object is to develop aggregate national income from industry by 500% and all other targets fixed by them are subservient to it. This object has been very well carried out by them. But I will not at all agree with Mr. Lal's view that this is what could best be done under the existing circumstances. There seems to be too much hero-worshipping or despondency in this view. I will like him to look at the problem with the realistic boldness of a planner. If the Eight Industrialists give cool thought to all the criticisms made against them in regard to economic perspective and consider the issue dispassionately, I have no doubt that they would concede a larger measure of agricultural improvement than sanctioned in the first part of their *Plan*. They would not perhaps stick to their guns as rigidly as some of their critics seem to do.

[16]See for instance my *Pessimism in Planning*, p. 184.

A PLANNED ECONOMY FOR HYDERABAD

BY

ANWAR IQBAL QURESHI

A very pertinent question may be asked at once as to why so much stress is being laid on planned economy these days? In order to answer this question, it is necessary to find out why the older system of laissez faire does not work so smoothly now as it did, say, in the last century? The two most fundamental assumptions of the classical economy on which its entire edifice was based were full employment, and perfect economic liberty. Taking these for granted, it became abundantly clear that world economy will be guided by the theory of comparative cost and all countries will specialize in the production of those goods for which they had the most relative advantage. In the 19th century, the economy of the world was developed more or less under the guiding influence of this theory. The new overseas countries had plenty of virgin land and other natural resources but there was lack of labour and capital in those countries. On the other hand, in the old countries, labour was relatively abundant and capital was cheap. Therefore, men and capital flowed from the old countries to the new countries, who specialised in agriculture, and the old countries due to density of population, the availability of capital at comparatively low rates of interest and the availability of scientific skill, specialised in the production of manufactured goods. This arrangement worked fairly successfully (though various signs of weakness were apparent later on) until the beginning of the last Great War. Since then the situation has considerably changed. Those vast empty regions are no longer available. There has been a good deal of awakening in the eastern countries. The development of automatic machinery and the sale of interchangeable parts have made the industrialisation of even backward countries much easier than it could be imagined half a century ago. These countries have the further advantage of cheap labour, big internal markets and the opportunity of getting up-to-date machinery and starting

with almost a clean slate. The national awakening in various countries has roused the feeling of nationalism with its economic consequence of national self-sufficiency as far as possible. The old countries, compelled by their circumstances, have been reviewing their policy. England —the great cradle of free trade and until the late twenties of this century, the greatest champion of the cause of free trade—had to follow the policy of protection and imperial preference. The United States, which until before the last great war literally used to invite millions of immigrants, has now almost put a complete ban. So, as a consequence, we notice that since the last great war, the fundamental assumptions of classical economy do not work any longer to a considerable degree. There is not only no full employment but on the other hand, until before the war started there was unemployment on a very large scale. During the years of the last great depression it was estimated that in the U. S. A. so called unlimited chances and opportunities, the land of twelve million persons were unemployed. In Germany which has a population of less than half of the U. S. A., more than six million were unemployed. In England, the number of unemployed was no less than two million. So the assumption of full employment was no longer true.

As regards economic freedom, it was conspicuous by its absence. There was strong resistance to change and various impediments to the free movement of capital, labour, and goods, were introduced in the form of immigration restrictions, quotas, exchange control, import and export control, and scores of other such restrictive measures.

During the thirties of this century, it became abundantly clear that due to various reasons, the old system was not working smoothly and in order to bridge the gap and to bring about the necessary adjustment (which was needed due to changing circumstances), the intervention of the State was very necessary. In the early stages, it worked only in the negative fields but the bold experiments of Russia and the successful completion of their two 5-year plans for developing the economic resources of the country, stimulated thinking in other parts of the world and encouraged State action in the positive form. It was discovered that the State, by proper action, could plan the economic resources of the country in such a way as to remove unemployment and to bring about the necessary adjustment in a much shorter time than could be done if the forces were left to themselves.

It needed the reminder and the experiences of the present war to demonstrate that if the resources of a country were properly employed and the State was determined to see that no useful source was left idle, it was possible to achieve full employment. We notice today that not a single fit and able-bodied person is permanently unemployed either in England or in the U. S. A. Even in an economically backward country with a very large population like India, it is found that the war has stimulated employment in this country so much that shortage of labour is being felt. Again, another big obstacle in the development programme that was seriously felt in the pre-war days was the difficulty of raising funds to finance the various schemes. The war has forcibly taught this lesson to us that finance is no longer in the despotical position as it was considered before the war, and that we need not be slaves to it. In the last great war, which itself was considered a very expensive war, in its concluding stages, Great Britain was spending three million pounds a day. The present war began with an average expenditure of six million pounds a day and it was considered a very heavy sum, indeed. Perhaps, it was this colossal expenditure which led many people to think that it could not be a very long war as it was very expensive and only few countries would be able to afford such colossal sums. We notice that the war has now entered its sixth year and the expenditure has increased from six million to about thirteen million pounds a day and this big sum is somehow or other being found. If we could spend these colossal sums in peace-time in the service of mankind, this world would become a real paradise indeed, and it is being asked, and rightly asked 'What prevents us from doing so in peace-time ?" At one time, it was believed that Eastern countries are not suitable for industrialization. But this is no longer true.

CHANGED CIRCUMSTANCES OF THE BACKWARD COUNTRIES

One of the main factors for the comparative economic backwardness of Eastern countries like India, in the past, was the lack of peace and political security. Thanks to *Pax Britannica* that the country has now achieved a remarkable degree of political and social security, with the result that the spirit of savings and investment has been continuously growing in the country, and during the last

twenty years or so, Indian industry with Indian capital has developed very tremendously.

Many erroneous notions regarding the suitability of the Eastern countries for industrial development are also being dispelled by our recent experiences and it is becoming quite clear that these obstacles are not serious. In this connection, the following observations made by Mr. A. J. Brown in his pamphlet 'Industrialization and Trade' may be read with great interest :—

> "The mutability of these factors is very plain. Political and social stability of a certain degree being attained, institutions for the canalization of savings can grow up, and foreign credits can be attracted. The growth of a habit of saving to a sufficient extent cannot be relied on (though with many people emerging from political and social uncertainty and primitive economic conditions to more settled institutions and rising standards of living it appears to grow readily), but public enterprise financed out of taxation or forced savings of some kind is a possible substitute here—as it may be also for lack of private initiative. Once financial institutions are fairly highly developed, it is possible with the aid of modern technique in monetary and foreign exchange policy to keep interest rates lower in many cases than they would otherwise be. The "laziness" and lack of economic ambition of the workers at first available in many areas, moreover, are due partly to malnutrition and disease. These can be eradicated in the process of industrialization if it succeeds in raising the average level of output per head; and it should do so, if well-directed, unless it is accompanied by an offsetting increase in the pressure of population on resources—a danger not to be ignored. Much of the remaining "laziness" and lack of ambition is attributable to the traditional outlook engendered in other ways by the original social setting, which will itself change with industrialization. How important the residual and unalterable factors of climate and hereditary constitution are in determining the working capacity of a people, it is difficult to say, but it would appear wise in general to rate them low. At all events, differences in industrial skill can be removed very effectively by technical training (to which general education may be a necessary prelude) in the course of time; there is little, if any, evidence that the peoples of the economically backward parts of the world are inherently less capable of learning than those of the advanced countries."

We can conclude that from the purely economic point of view there is no reason whatsoever why backward countries should not industrialize. As a matter of fact, it is all the more necessary that in order to remove their backwardness and to increase their standard of living their resources must be more profitably exploited. One great handicap

in the way of industrial development of these countries in the past, who had not abundant coal resources scattered all over their areas, was the great difficulty of generating power which was so essential for the development of industries. Now with the development of hydro-electric power this is no longer the case, and countries like India which have abundant water resources have been placed in a very advantageous position.

Again, owing to the difficulties of generating power from coal, the unit of production used to be necessarily large. Now with the spread of hydro-electricity, power can be given to very small units, and this opens a very large field for the development of cottage and small-scale industries for which Eastern countries are very well suited.

We may conclude this Section by exposing the fallacy that Industrialization in the East is likely to adversely affect the Western countries. This is far from the truth. As a matter of fact it will ultimately benefit these countries, because an increase in the standard of living in the East will open practically unlimited opportunities to supply goods to these growing markets. Let us take one concrete example. It is said that the development of cotton industry is likely to seriously affect the interests of Lancashire. The *per capita* consumption of cloth in India at present is only 16 yards, which practically is the lowest in the world. The following table shows that with the exception of Greece the consumption of cloth in India is the lowest.

U. S. A.	...	64 yards
Canada	..	37·7 yards
Sweden	...	36 "
Germany	...	34 "
Malaya	...	30·6 "
Denmark	...	30 "
Japan	...	21·4 "
Egypt	...	19·1 "
Brazil	...	18·9 "
Iraq	...	16·9 "
India	...	16·1 "
Greece	...	15 "

The aim of Post-War Planning in India is to double our standard of living. Accordingly if we assume that the consumption of cloth in this country increases from 16 yards to 32 yards per head and in the ordinary course of things India is to provide the entire cloth requirements of the country if no increase in the standard of living is assumed, and Lancashire is asked only to provide the surplus cloth

required, India will absorb the entire production of Lancashire, and still she will not be able to meet our requirements. This shows the magnitude of the markets lying to be captured and the great assistance that should be extended to us by other countries in their own interest.

It is with this consciousness that schemes for post-war development are being prepared in Hyderabad.

THE NEED FOR POST-WAR PLANNING IN INDIA

There is hardly any disagreement that India with perhaps the possible exception of China for which country no figures are available, has the lowest standard of living, as the following table shows :

Country	Year of estimation	Income in £.
India ...	1931 ...	5
England ...	1931 ...	76
Australia ...	1931 ...	60
U. S. A. ...	1931 ...	89
France ...	1931 ...	41
Czechoslovakia ...	1925 ...	35
Denmark ...	1927 ...	55
Germany ...	1925 ...	39
Italy ...	1927 ..	24
Egypt ...	1928 ...	21
Japan ...	1925 ...	12
Bulgaria ...	1932 ...	9
Russia ...	1905 ...	10
China ...	Not Estimated	

The aim of national planning should be to increase this absurdly low standard of living. We should endeavour to double this standard of living during the next ten years.

POST-WAR AIMS

It is said that the aim of post-war efforts should be to grant four freedoms to all individuals and the principal freedom needed is the elimination of the fear of hunger and poverty. How colossal is the task, can be estimated from the fact that in 1934, in England, Mr. Rowntry estimated that families where the number of children is more than three, there at least the needs of 15.2 per cent children cannot be adequately catered for, and in families where the number of children increased to four, 31 per cent children could not be supplied with the reasonable necessaries of life. These sad figures should be enough to tell us the task

that lies before us. If it is not possible in a rich country like England, where the national income is more than 15 times the Indian income, to take adequate care of 34 per cent of the children in four-children families, the conditions in India with much higher birth rate and much lower income can easily be imagined.

PAST EFFORTS TO RAISE THE INDIAN STANDARD OF LIVING

Indian poverty is nothing new nor is the desire to raise our standard of living. But the efforts made in the past to solve this colossal problem seem like a drop in the ocean and were made without fully realising the implications of the situation and the scale of effort that was needed to remove it. Rural reconstruction has been very much in vogue in this country during the last 15 years or so and they tried to reconstruct new rural India by providing mosquito nets, quinine tablets, a window or a ventilator in an old half-dilapidated house and reviving old Panchayats here and there. These efforts have failed miserably. The sooner we realise that this is all a wasteful effort, the better for us.

The magnitude of the problem has been shown by the Bombay Industrialists' Plan that in order to double our standard of living, it will take us 15 years and we shall have to spend ten thousand crores of rupees or 7,550 million pounds. This plan has attracted a good deal of attention which it so richly deserves. On the other hand, there is the impression in certain quarters that very little is being done by the Indian States in this connection. This is far from so, at least as far as Hyderabad is concerned.

POST-WAR PLANNING IN HYDERABAD

The Department to plan the Post-War Economy of Hyderabad was started in April 1943 with one of the ablest civil servants of the State as its Secretary.

With the rest of India, Hyderabad as a self-governing State has the onerous task of adapting itself to post-war economic conditions and of developing its agriculture and industries in order to enable its people to increase their purchasing power and to provide for themselves a decent standard of living in the post-war period. The cessation of

hostilities will create problems no less serious than those brought about by the war and it is the duty of every Government to visualise and make every possible preparation to meet them. The problems that Hyderabad has to tackle are as diverse as those elsewhere in India and of the same magnitude, but in some respects their solution is probably not so easy, because the State, compared with many British Indian Provinces, has much lee-way to make in the field of industrial and agricultural development and has to surmount difficulties in gearing its quasi-feudal economy to post-war needs. The planning of peace-time economy in Hyderabad comprises a variety of problems of vital interest to the State and in fact involves an all-sided development and mobilisation of its entire resources. For the development of agriculture, which is the mainstay of its people, big irrigation schemes have to be evolved and improved methods of agriculture, better marketing, and scientific farming have to be introduced. The hydro-electric industry has to be developed to provide cheap power in abundance, not only for the expansion of industries but also for the electrification of villages and rural industries. With the availability of raw materials, Hyderabad can aspire to develop textile, oil and ceramic industries, at least to the extent of self-sufficiency. With the electrification of villages, there is a vast scope for the development of small-scale and cottage industries, which will result in increasing the income of the villagers. It is also necessary to develop industries for the manufacture of fertilizers to increase the yield of the agricultural lands and for the manufacture of machine-tools to cater for our industrial and agricultural requirements. Blue prints of plant and machinery required for starting new industries and replacing worn-out machinery should be prepared beforehand, so that orders may be placed for obtaining them sufficiently in advance. Scientific research should be given an impetus and concentrated on our own raw materials. There should be a general stock-taking of the minerals found in this State for their industrial utilization. Communication should be expanded throughout the country for the transport of raw materials and finished products. The personnel required for agricultural and industrial development should be trained. Arrangements should be made for the settlement of demobilised personnel in industries and agriculture after necessary training. Then there are the problems of illiteracy and ill-health, which should be tackled, both in rural and urban areas, as evidently it will

not be possible to implement any scheme of economic advancement without educating the masses and making them physically fit for the task before them. Lastly, there is the problem of raising funds for implementing the post-war schemes. This is undoubtedly a difficult task anywhere, but it is all the more so in Hyderabad, which is still in the grip of semi-feudalism. Nevertheless, if Hyderabad is to adapt itself to the changing needs of the time and if plans are to be worked out and implemented for raising the State's income and the standard of life of its people, money should be found for this purpose.

Various States, Provinces and the Government of India have set up Post-War Planning Departments but until recently with very minor exceptions, their planning had not achieved any tangible shape, nor any provision had been made for funds to achieve those aims and objects. Even in the Government of India no funds so far have been set apart for the same. In this respect a great contribution to the budgetary technique was made by Hyderabad. In presenting the budget for the year 1943-44, the Hon'ble the Finance Member made a provision for the creation of Post-War Development Reserve which was to consist of about Rs. 3 crores. This was necessary at this stage because due to the falling of the revenue it would not be so easy to raise funds after the War. I think an apology is hardly needed to give a rather lengthy quotation from the budget note to show how Hyderabad has realised the implications of post-war economic development and the courage and determination of the authorities of the State to fully provide for the economic development of the country. The Hon'ble Mr. Ghulam Mohammed, the Finance Member, mentioning the functions of this reserve remarked :—

> "This Reserve should be earmarked for meeting expenditure on Nation-building activities like Education, Public Health, Medical Relief, and Rural and Industrial Development. While the increase in revenue due to War conditions may not last when peace dawns and the artificial conditions created by War melt away, the need for expenditure on Nation-building activities and the pressure for development of social services is bound to increase. Plans are being worked now by several departments for Post-War Development. The Education department has indeed already gone ahead and is ready to proceed with certain schemes even during the continuance of hostilities. No better use of the money accumulating in the Reserve due to War Conditions could be found than to consolidate it and divert it when needed to Nation-building activities so that the strain on our Budget in the Post-War period is reduced at a time when revenues may not show their pre-

sent elasticity and demand for expansion would be real and pressing.

"This War has not left the old and orthodox concepts of Finance unaffected and the old citadel of technical and rigid finance with its meticulous controls and strict examination of productive and Nation-building schemes from a somewhat narrow point of view of their immediate ability to meet interest and depreciation charges, is yielding fast to the more advanced and rational basis of judging development schemes from the point of view of their direct and indirect benefits to the people in the country. Schemes which may not be immediately remunerative in the sense of producing enough revenue to meet interest and depreciation charges may, however, confer benefits on the citizens far outweighing in their economic and social aspects the deficiencies in meeting the necessary financial charges. The intention is that this Fund should take the first shock of such losses till such time that the schemes could be considered even from the orthodox point of view as self-supporting. This change in the outlook of Finance should assist in the initiation and execution of development works and beneficial schemes conceived on a long-range policy based on imagination, foresight and ultimate good of the Citizen. The sanctity attached to balanced Budgets has broken down under the stress of War which has demonstrated that expenditure on beneficial activities like Education, Rural and Industrial Development and Public Health bring in an indirect return in raising the general efficiency of the individuals and therefore their earning capacity which in its wake should bring in increased revenue to the State in one form or the other. Such increased revenue is not, according to the orthodox methods of Finance, an indication of the remunerative character of schemes The schemes which do not fulfil the orthodox conditions but are, after taking the indirect benefits to the Citizen into account, considered desirable should find support from this Fund.

"While the intention is that during the period of the War so far as possible expenditure from this Fund should be limited to the interest earned, the grants from the corpus of the Fund should become available where necessary even before the cessation of hostilities."

We have already remarked in the earlier part of this paper that the Bombay Industrialists' Plan has attracted a good deal of attention for its boldness and for showing the magnitude of the problem. This Plan was published in January, 1944. Hyderabad can claim rightful pride in the matter because a month before the publication of the Bombay Plan, the Head of the Economics Department, Osmania University, delivering his presidential address before the sixth Hyderabad Economic Conference showed that Hyderabad would require a sum of Rs. 210 crores to double its income in five years. Explaining the implications

of doubling the national income of Hyderabad during the next five years, he remarked :—

"If for simplicity, we take the present population of Hyderabad State at 1·75 crores and the per capita income at Rs. 60 we get a total national income of 105 crores, per annum. Now let us see what will be the magnitude of the capital required to double our national income, say, in the course of five years. Figures are available for about 12 countries showing that the ratio between national capital and real income is 2·7. But the ratio varies from industry to industry and the capital invested. In industries, where the capital investment is very high, the ratio is also high. For a State like Hyderabad, where the capital investment is not likely to be high, we can assume the ratio of national capital and real income as two. On this assumption, we find that in order to double our income we require something like Rs. 210 crores for the whole period of five years or Rs. 42 crores per year. If the income is to be again doubled during the second cycle of five years *viz.*, from Rs. 105 to 210 crores, we shall require a capital of Rs 420 crores or a yearly sum of Rs. 84 crores.

"Although the war has exposed the bogey of finance and has demonstrated that where there is a will there is a way, we must not run away with the idea that we can now build castles in the air. Production in any form of society is limited by man-power, land, raw materials and machinery. There is no doubt that there is abundance of man-power in this country, but land in relation to pressure of population is strictly limited. The raw materials are not very abundant, and machinery is entirely lacking in the country as a whole, and for a very considerable period of time, machinery will have to be imported from other countries. But our capacity to import is limited by either to export or to borrow. The lack of machinery and trained labour was very much felt, and seriously retarded the rate of Russian progress during the early years of their gigantic experiment.

"The problem before Hyderabad is to spend Rs. 42 crores each year in order to increase its national income at the rate of 20 per cent per annum. The fundamental question to be asked is, can this sum be raised? It will not be an easy matter to provide a sum of Rs. 210 crores in the course of 5 years The national economy will have to be thoroughly overhauled to meet the requirements of the situation. Much of our unproductive expenditure will have to be very drastically curtailed. The savings will require thorough mobilization. Ornaments and jewellery will have to disappear and many more things will have to be done."

THE PROGRESS OF PLANNING WORK IN HYDERABAD

In order to associate all shades of public opinion of the State with the work of Post-War Planning, a Post-

War Planning Board was set up consisting of 28 members, both officials and non-officials, with His Excellency the President of H. E. H. the Nizam's Government as its Chairman. In order to prepare concrete schemes for the Post-War development the following 14 expert committees have been set up dealing with the problems like Agriculture, Industries, Irrigation and Hydro-electricity, Education, Public Health, Labour Problems, Housing, Demobilisation, Trade, Currency and Finance, etc. Under these committees about 28 sub-committees have been set up to go into further details.

Following is the list of the main Committees:—(1) Irrigation and Hydro-electric power ; (2) General industries other than those covered by Committees Nos. 3 and 4 ; (3) Small-scale industries and cottage industries ; (4) (A) Cotton, textile, woollen, oils, ceramics and electrical goods industries; (B) Mineral Resources ; (5) Government Works and Communications other than Railways ; (6) Scientific and Industrial Research ; (7) Education (particularly vocational education) including agriculture ; (8) Training of Personnel ; (9) Rural Reconstruction ; (10) Man-Power; (11) Public Health ; (12) Finance, currency, banking, exchange and trade ; (13) Labour; and (14) Housing.

No one committee has yet completed its task as the problem is a vast one and very often the recommendations of one committee or sub-committee have to be referred to other committees, but the work has progressed considerably and various committees have submitted their interim reports giving the preliminary outlines of their schemes.

Addressing the Post-War Planning Board, the Hon'ble Member in charge very clearly indicated the scope of work in Hyderabad. He remarked :

> "In dealing with post-war planning, it is necessary to state in as clear and unambiguous terms as possible, the goal that is in view and the essential conditions for reaching that goal. Post-war planning is not limited to a mere settling of our soldiers who are fighting our battles in far-off lands or the rehabilitation of our technical personnel and of such industries as we have and which are at present employed in War work. In the case of Hyderabad, as indeed in the case of the rest of India, post-war planning goes much beyond these very limited, though desirable, objectives. It is not a question of mere re-adjustment of our economy after the War is over, so that our productive capacity and our man-power which is employed on War work could find useful avenues for employment and suffer the least from the necessary readjustments when peace dawns. The problem that has engaged the

attention of Governments and informed non-official opinion in British India and in the States is one of making up for what perhaps might have been done many many years back before the War. It is a question more of development in the post-war period, of Agriculture, Industries and the economic life of the country as a whole, with the definite objective of raising the standard of life of the common man. Social and economic conditions in Hyderabad, though possessing their own distinctive features, present the same kind of problem as elsewhere in India. Under-fed poor population with limited resources, ignorance and preventable disease taking heavy toll of human life and causing inefficiency all round, few industries to absorb the rapidly increasing population and to relieve the pressure on land, lack of any bold and imaginative approach to stimulate production of the soil or utilisation of the raw-materials and mineral and other resources of the State; these are the features which are common to the whole of India, the difference between area and area being only one of degree. Once it is clearly realised what we are aiming at, it would be apparent that any planning on this scale, to be successful, must cover all branches of Governmental and non-official activity and touch on the economic and social habits and life of the people."

The aims before the Board cover practically all fields of activity. We aim at increasing our agricultural production by the use of modern methods, better implements, provision of fertilizers, irrigation facilities and by educating the cultivator and his progeny, relieving him of his indebtedness, giving him a better house to live, better and sufficient clothing to wear and giving him some diversion and greatest interest in life.

A vague misunderstanding exists in certain quarters that the planning in various States is likely to lead to isolationism and shall lead to the growth of uneconomic small local units. In this connection the following observations of the Hon'ble Mr. Ghulam Mohammed, Member in charge of the Post-War Development, should satisfy even the most pessimistic thinkers. He has remarked that:

"A concentrated plan by all units forming the vast sub-continent of India, having one common aim differing in methods of work and execution only to suit local condition is an essential condition for success. Co-ordination of effort, pooling of all knowledge and ideas and avoidance of overlapping, are essential in the common interest. With her limited resources of technical man-power, no part of India could afford to fritter away its resources or try to become self-sufficient in all matters."

As a concrete example of our Inter-State and Provincial co-operation, I may mention that Hyderabad has recently entered into an agreement with the Governments

of Madras and Mysore State to tap the waters of the river Tungabhadra and jointly complete the irrigation and hydro-electric schemes.

In the course of an article, it is not possible to mention anything in detail about various schemes of post-war development that are yet in progress in Hyderabad, but mention may be made of the few important schemes to show the magnitude of our plans. The plans range from a period of five to twenty five years, but expenses are shown on the basis of ten years as arrangements are made to finance a comprehensive ten years' plan.

COMMITTEE ON HYDRO-ELECTRICAL AND IRRIGATION SCHEMES

The importance of power for the development of industries and agriculture can hardly be exaggerated, as it is evident that neither rapid industrialization of the State nor simultaneous improvement in the agricultural conditions is possible without the provision of cheap and abundant power on the one hand, and the development or irrigation resources on the other. It is believed that the State holds a very favourable position for the development of power and irrigation owing to the largest rivers of Deccan, *viz.*, Godavary and Krishna flowing through it.

The Hydro-electric Survey of the State carried out in 1938 revealed that the extent of water power that can be developed on these two rivers alone amounts to 1,45,000 K.W. continuous and there are possibilities of generating another 70,370 K.W. from their large tributaries, such as Tungabhadra, Mankira, Kaddam, Purna, Penganga and Manair. In all there is the total possibility of generating 215,370 K.W. continuous. Further the area that will be possible to bring under irrigation after water is utilised for the generation of power is estimated at 26·78 lakhs of acres. The total cost of all these projects amounts to Rs. 65·95 crores, and it is expected that on an average a return of 8·4 per cent will be realised. This of course is a long range programme, but in view of the importance of these two very essential items the Committee has recommended an expenditure of Rs. 42·34 crores for the first ten years irrigating 928,500 acres and generating 1,32,190 kilowatts of power.

DEVELOPMENT OF INDUSTRIES

The various committees working for making plans for the development of industries in the State have not yet

completed their plans. The State has already a flourishing cotton, sugar and paper industry. In our programme, special priority has been given to start those industries which are connected with agriculture, for instance, the manufacturing of fertilizers and agricultural implements. Hyderabad is specially suited for developing cotton and oil industries as it is an important producer of these raw-materials. Special attention is devoted to fully develop these industries in the post-war period. The handloom industry being the most important small-scale industry has been receiving attention. It is proposed to set up a spinning mill with 36,000 spindles to supply yarn at reasonable prices to the weavers. The use of fly shuttle instead of throw shuttle has been recommended with a view to increase the efficiency of handloom, and special attention is being devoted to set up a Sales Organisation to help the weavers to effectively market their goods. It is proposed to set up 12 main demonstration centres where the number of handlooms are 500 and 24 sub-centres at places where the number of looms is between 200 and 500. These centres will have separate sections for : (1) Supply of yarn and other raw-materials, (2) Sale of finished goods, (3) Dyeing and Printing, (4) Demonstration, and (5) Training.

This scheme is likely to cost the Government Rs. 189·45 lakhs.

The Government proposes to spend 9·83 lakhs for training of personnel for hosiery industry which is likely to provide good means of employment to lower middle classes.

Number of industries subsidiary to agriculture are likely to be set up, plans for which are under active preparation. In order to examine the full possibilities of development of industries in the State and to find out the state of present small-scale scattered industries and make reliable data available to the public, it is proposed to carry out an industrial survey of the State and proposals in this connection are being made by the Economic Adviser to the Government.

SCIENTIFIC AND INDUSTRIAL RESEARCH

The importance of Scientific and Industrial Research can hardly be emphasised, specially if we are to make rapid progress. The Government has sanctioned the opening of a Central Laboratory for Scientific and Industrial Research

which will cover Industrial and Agricultural Research as also research based on our raw-materials including mineral, forest products and herbs, so that Hyderabad might march forward towards its goal of industrial expansion and the development of agriculture. This Laboratory will cost Rs. 15 lakhs as non-recurring expenditure. An eminent Scientist of the State has been made the Director of these laboratories and to co-ordinate all such research in the Dominions.

MEANS OF COMMUNICATION AND TRANSPORT

It is proposed to build up a number of highways and major district roads and to connect them with feeder and village roads. Special emphasis is being placed on developing village communications. Railways, Postal Services and Telephone, Civil Aviation and Broadcasting, all are receiving very careful attention of the respective sub-committees and plans are in progress.

HOUSING

Housing occupies a very prominent place in the post-war programme and the total expenditure of about Rs. 60 crores is estimated in this connection.

EDUCATION

The Committee on Education has estimated that in order to develop education in all its aspects it will take 40 years to achieve this end and when the scheme is in full operation, the annual expenditure will be somewhere in the neighbourhood of Rs. 17·50 crores per year. This of course is a very ambitious programme and can only be aimed at as our final target.

In order to make the scheme practicable in the near future, the Director of Education at the instance of the Post-War Planning Committee on Education has prepared two seven-year plans with the following main features :— (i) The expansion of Primary Education; (*ii*) Prevention of wastage and stagnation among school-going children; (*iii*) Resulting expansion of Secondary education; (*iv*) Special training for Pre-Primary education; (*v*) Training of teachers; (*vi*) Special scholarships for recruitment to Officers' cadre and Senior non-gazetted posts; (*vii*) Provision for adult

education; (*viii*) Recreation and social activities; and (*ix*) Creation of an Employment Bureau.

This scheme brings 33 per cent. of the school-going population under education. The scheme for the development of University education is under preparation and the cost of both these for a period of ten years is estimated at Rs. 25 crores.

PUBLIC HEALTH

The Committee on Public Health has prepared a very thorough scheme covering the entire Dominion. Out of 21,000 villages in the Dominion, 5,000 which have a population of less than 200 persons have been excluded (as these can easily be amalgamated with the nearest big villages); thus leaving 16,000 villages to be dealt with. The Committee intends to divide these 16,000 villages into a group of 10 villages thus setting up 1,600 branch units catering for the medical and health requirements of the Dominion. Out of these, 800 units will be Allopathic, 600 Unani and 200 Ayurvedic. It is also proposed to establish 400 hospitals in the rural areas with an accommodation of at least 4 beds for each hospital. In each Taluq Headquarters, there will be three hospitals, one for Allopathic system of medicines and the others for the Unani or Ayurvedic with an accommodation of 30 beds in the Allopathic and 10 beds each in the other hospitals. Similarly bigger hospitals will have bigger accommodation. On the whole provision is made for 12,720 beds in the District Hospitals, and 3,400 beds at Hyderabad proper. Of the total provision in the scheme of 16,120 beds, on the basis of one bed per thousand of population, 80 per cent are for the benefit of the villagers, while of the 2,449 outpatient institutions 99.5 per cent are located in the districts.

PUBLIC HEALTH ORGANISATION

Similarly it is proposed to set up 1,600 health units, each unit controlling 10 villages and being in charge of a Health Inspector and a trained Dai. For every 40 villages, there will be a Thana Health Centre in charge of one Assistant Health Officer with two male and two female Health Visitors, two mid-wives and other necessary staff. A Rural Maternity and Child Welfare Unit will form a part of this Centre. 400 such Health Centres will be established in the Dominion. Similarly in the Taluqs and in the Districts adequate staff will be provided. In the

entire scheme of Public Health and Medical Relief, greater importance is attached to the preventive aspect which is in line with the modern trends.

In the Office of the Director of Public Health five following Bureaus will be organised each in charge of a specialist, one of whom will be a woman medical officer :—(1) Bureau of Maternity and Child Welfare ; (2) Bureau of Epidemicology and Vital Statistics and Fairs and Festivals; (3) Bureau of Rural Sanitation, Nutrition and Malariology; (4) Bureau of Health Education, Propaganda and Training of Health Personnel; and (5) Laboratory Services.

PERSONNEL REQUIRED

If the scheme is to function properly, it will require a very big personnel. For the Allopathic Section alone, it is estimated that it will need 1,836 Medical Officers (men), 322 women, 1,074 nurses; while we find that at present there are only 298 men medical officers, 57 women officers and 210 nurses. At present there is no proper Health Organisation at all and this will require a new staff altogether. The Committee has made many recommendations for the training of personnel. It is estimated that for a period of ten years, the Medical and Public Health schemes are likely to cost Rs. 15 crores.

FINANCES REQUIRED FOR POST-WAR PLANNING SCHEMES

All the Post-War Planning Committees due to the very nature of their work have not been able to complete their schemes but a good deal of progress has been made to show the trends of their development and the expenditure required.

It is estimated that an expenditure of at least Rs. 250 crores will be required to finance these plans. The responsibility for finding the resources has been entrusted to the Committee on Finance, Banking and Currency, which is presided over by the Finance Member himself. This Committee will consider various ways and means to find out moneys for financing these plans. A good deal of spade work has already been done in this connection.

The outline of the Post-War Planning developments in Hyderabad given above, though brief in itself, is enough to show the trends of developments in the Dominion, and to prove that Indian States, specially Hyderabad, have in many respects gone ahead of British India in their programme of Post-War Development.

WAR AND RURAL INDEBTEDNESS IN GUJARAT

BY

M. B. DESAI, M.COM.

Research Assistant in Economics, Department of Economics, University of Bombay

The results embodied in this note are based on a part of the data collected during a comprehensive investigation by the writer all over Gujarat during February-April, 1944 in connection with the "Inquiry into the Working of Price Control in Bombay Province" instituted by the Department of Economics, University of Bombay. In all about 217 farmers, artisans and field labourers were examined on a number of topics connected with food supply and price control. The information gathered about indebtedness is put in a nutshell in the following table. The farmers having debts have been divided into four classes: (*a*) those whose debts have been reduced, (*b*) cultivators whose debts have remained the same, (*c*) those farmers who have added to their debt burden, and (*d*) those peasants who became indebted during the war for the first time.

Class	Number of farmers	Indebtedness in 1938-39	Indebtedness in 1944	Variation (Amount)
		Rs.	Rs.	Rs.
I	29	62,400	13,900	−48,500
II	27	34,642	34,642	*Nil*
III	24	17,151	53,073	+35,922
IV	19	*Nil*	10,865	+10,865

Out of the 178 farmers studied as many as 80 were already in debt when the war began and the average burden of debt per indebted cultivator amounted to Rs. 1427·3. Of those 80 farmers the debt in the case of 29 was scaled down by 77 per cent during the five years of war and the average indebtedness which amounted to Rs. 2157·2 in 1938-39 was reduced to Rs. 479.3 in 1944. Nine cultivators

of those whose debts have been scaled down were mainly carrying on garden cultivation. Their debts which amounted to Rs. 21,800 were completely wiped out. The rest raised dry crops, cotton and one or more of the important cereals of wheat, jowar, bajri and maize and the scaling down of debts in their case was from Rs. 40,600 to Rs. 13,900. A further important factor to be noted in this connection is that of the reduction of Rs. 26,700 in these debts a scaling down to the extent of Rs. 6,700 was achieved by the sale of ornaments and lands. Thus in regard to the cultivators of dry crops the actual reduction in debts due to war prosperity was 65.9 per cent. The table shows that there was no change in the amount of debt of 27 farmers. In regard to 24 farmers in Class III the debts rose by Rs. 35,922 but of this as much as Rs. 30,351 were borrowed by two farmers to purchase land so that the real increase in indebtedness due to war can be put down only at Rs. 5,571. Similarly in the case of 19 farmers in Class IV who happened to be burdened with indebtedness for the first time, out of the debts of Rs. 10,865 contracted during war years Rs. 1,600 were borrowed for the purpose of purchasing land by two farmers so that here again financial difficulties account for borrowings to the extent of Rs. 9,265. The averages of increase in indebtedness arising out of necessity of farmers in Class III and of new borrowings by those in Class IV of Rs. 232 and Rs. 487.5 respectively clearly indicate that the small farmers found themselves in difficulties as a result of the war. Treating the entire situation as a whole we find that the indebtedness of all the farmers examined which aggregated to Rs. 1,14,193 in 1938-39 stood at Rs. 69,664 in 1944 after making allowances for the borrowings of Rs. 31,951 which, in fact, were not forced out of necessity but were contracted for the purchase of lands. The reduction in indebtedness during five years of war may thus be put down at a little over 38 per cent of the pre-war level. The figures speak for themselves and it is hardly necessary to say that the prosperity enjoyed by the Indian peasant due to war has been over-assessed.

The statement below gives the average size of cultivated holdings of farmers in each class and the important crops raised by them.

Class	Average size of cultivated holding (acres)	Important crops
I	(*a*) 38.9	Dry crops: Cotton, wheat, jowar, bajri, maize, pulses, and groundnuts.
	(*b*) 5	Garden crops: Root crops ('suran', 'ratalu,' etc.), vegetables and fruits, tobacco, irrigated wheat, sugarcane and paddy.
II	19.8	Cotton, jowar, wheat, bajri, maize, bavto, groundnuts. tobacco (unirrigated) and minor vegetables like brinjal, onions, garlic on small pieces of land.
III	20.4	Cotton, wheat, jowar, bajri, maize, inferior grains, groundnuts and broadcast paddy.
IV	22.2	Cotton, wheat, jowar, bajri, maize and broadcast paddy.

It will be clear from the above figures that cultivators raising dry crops with an average holding of 38.9 acres had sufficiently high realisations from the sale of the produce at high prices which enabled them to repay their debts to some extent. Farmers employed in irrigation cultivation and with an average holding of only 5 acres could wipe out their debts completely. Those with holdings of 19.8 acres on an average and given to dry crops, but with little vegetable gardening bringing some additional income managed to keep their indebtedness at the pre-war level. As revealed by the analysis of holdings of farmers in Classes III and IV, cultivation of dry crops on holdings below 20 acres ceased to bring enough returns to cover the cost of cultivation and expenses on other requirements and such farmers had to incur debts.

Let us briefly discuss the rise in the costs of cultivation and living during the years under review. It was not possible during the inquiry to obtain information about all the items in the costs of cultivation and living and to assess their relative importance. But the information

obtained about the rise in costs under manures, draught cattle, implements, wages and fodder and feeds relating to cultivation and about some of the consumer's goods like sugar, kerosene, matches, sweet oil, tea, gur and salt purchased by all the farmers generally will indicate the rise in farmer's expenditure under both the heads. Rise in cost under individual items of cultivation enumerated above is indicated below:

Item.	Unit	Price in 1938-39 (Rs.)	Price in 1943-44 (Rs.)	Percentage Increase.
Manures :				
Cowdung ...	Cartload ...	0 10 0	2 0 0	220
Castor seed cakes ...	Khandi of 20 Maunds ...	15 0 0	56 0 0	275
Draught Cattle :				
'Kankrej' ...	Pair of bullocks	150 0 0	350 0 0	133
'Talapada' ...	" ...	80 0 0	250 0 0	210
Implements :				
Persian wheel ...	One ...	125 0 0 to 150 0 0	500 0 0	271·7
Leather 'Kos' ...	One year's service ...	6 0 0	30 0 0	400
Wages of Casual Labour :				
Male	Per day ...	0 4 0	1 0 0	300
Female... ...	" ...	0 3 0	0 10 0 to 0 12 0	250
Fodder & Feeds :				
'Kadbi'	100 bundles ...	1 4 0	3 0 0	140
Grass	1000 bundles ...	10 0 0 to 20 0 0	20 0 0 to 40 0 0	100
'Guar'	Ordinary Maund ...	1 8 0	4 0 0 to 4 8 0	200
Til oil cakes ...	" ...	1 0 0	3 0 0	200
Cotton seeds ...	" ...	1 4 0	3 12 0	200
'Kuski'	" ...	0 4 0	1 0 0	300

Although the rise under individual items varied it may be stated in general that, on the whole, the cost of cultivation in 1944 was a little over 200 per cent above the level in 1938-39.

Rise in the Prices of some of the Consumer's Goods, 1939-1944.

Item.	Unit.	Price in		Percentage Increase
		1938-39 (Rs.)	1943-44 (Rs.)	
Sugar	Seer of 80 tolas	0 4 0	0 8 0	100
Kerosene ...	Tin of 4 gallons	2 12 0 to 3 0 0	5 8 0	100
Matches ...	One dozen boxes	0 3 0	0 9 0	200
Sweet Oil ...	Ordinary Maund ...	5 8 0 to 6 0 0	17 0 0 to 18 0 0	300
Tea	One pound ...	0 8 0 to 0 10 0	1 8 0 to 1 10 0	200
'Gur'	Ordinary Maund ...	1 4 0 to 1 8 0	7 0 0 to 10 0 0	325
Salt	" ...	0 14 0 to 1 0 0	1 8 0	70

The table above indicates increase under individual items from 70 to 325 per cent, but the expenditure on these consumer's goods on the whole was about 198 per cent above the normal. In order to know in a general way to what extent the net proceeds of the farmer from the sale of his crops rose, it is necessary to compare the farmer's disbursements on both the above counts with the rise in the prices of commodities sold by him. Below are given the prices in 1939 and 1944 of important commodities sold by the farmer.

Commodity.	Unit.	Price in 1939 (Rs.)	Price in 1944 (Rs.)	Percentage Increase.
Dairy Products :				
Milk ...	Ordinary Maund	2 8 0	7 8 0 to 8 12 0	250
Ghee ...	,,	25 0 0	65 0 0 to 75 0 0	175

From these statistics it will be found that the prices of cotton and groundnuts rose roughly by about 115 per cent during 1939 and 1944. Tobacco prices rose by about 155 per cent in general. The prices of food crops comprising wheat, jowar, bajri, paddy and maize rose by about 200 per cent during the same period. The prices of irrigated crops like sugar-cane, gur and vegetables and fruits rose over 400 and 350 per cent respectively on an average. As against the rise of 200 per cent in some of the items in the cost of cultivation and about 198 per cent in the prices of a few consumer's goods it is clear that the cultivation of cotton and groundnuts became unprofitable. It will be also seen that both the cultivation of food and garden crops brought higher returns than that of tobacco, cotton or groundnuts although as between them cultivation of tobacco was certainly to an advantage. It should be borne in mind that major rise in the expenditure of the farmer occurred during 1943-'44 before which there was a considerable gap between higher returns he obtained from the sale of his produce on the one hand and the comparatively low expenses on farming and household requirements on the other. As a result of this the farmers could effect the repayments of their debts largely during 1942-43. During 1943-44, however, prices of foodgrains were controlled and restrictions were imposed on their movements and private trading. The cotton prices also rose from Rs. 100 to Rs. 125 per bhar in 1938-39 to Rs. 300 to Rs. 350 in 1943, but fell to Rs. 200 to Rs. 250 in 1943-44 and recovered to Rs. 250 to Rs. 280 in 1945. The prices of tobacco and garden produce realised by farmers in 1945 were 500 to 575 per cent

and 500 to 600 per cent respectively over the normal pre-war levels. Only the prices of cereals like wheat, jowar, bajri, paddy, and maize stood at the same levels during 1943, 1944 and 1945 as they were fixed officially. Figures for the cost of cultivation and cost of living for the year 1945 could not be collected, but it can be certain that the rise in them was probably smaller than that in the prices of fruits and vegetables and tobacco. The vast majority of the farmers in Gujarat, however, cultivate cotton and one or more of the major cereals and it is not necessary to labour the point to indicate that they are not in too favourable a position. The Growth of Food Crops Act, 1944, has brought in its trail additional difficulties. Complaints have come forth from the Viramgam taluka of the Ahmedabad district that as the soil there is mostly suited to the cultivation of cotton, the returns from food crops raised on it are either low or none altogether. The farmers in the black cotton soil of the Surat and Broach districts complain that cultivation of wheat or jowar year after year on the same land deprives the soil of the advantage of recuperating the fertility through rotation of cotton and cereals alternately which results in low yields of cereals.

Dairying is an important subsidiary industry of the farmer in this tract. A perusal of the table showing the rise in the cost of various items of cultivation will indicate that cotton seeds and 'kuski' which are the two important feeds purchased solely for the dairy cattle rose by 200 and 300 per cent respectively during 1938-39 and 1943-44. Except for 'kadbi' and grass other items of "Fodder and Feeds" also rose by 200 per cent over the same period. Fodder consumed by cattle, however, is mostly produced on the farm and the rise in its price could indicate inflated cost only for those farmers who purchase it. The prices of milk and ghee sold by the farmers, on the other hand, rose by about 175 to 200 per cent over the same period. As a result of the legislation compelling the farmers to raise food crops which meant a small acreage under cotton in 1944 and the resultant limited cotton crop in 1945 there was an acute shortage of cotton seeds required to feed the dairy cattle which it is feared would adversely affect the milk yields of the milch cattle. Efforts are being made to ration 2 seers of seeds per day and 15 seers per month per animal in the Surat and the Panch Mahals districts respectively. The prices of cotton seeds have been fixed and restrictions on their movements have been imposed. But considerable time will elapse before these arrangements to distribute the

rations, meagre and wholly inadequate even though they are in comparison with the supplies needed, are completed and the cotton seeds reach the farmers.

ARTISANS AND LABOURERS

As the inquiry related to numerous other aspects besides indebtedness and covered many classes of rural inhabitants, it was not found possible to examine large number of artisans and labourers. The results of the inquiry about indebtedness of some examined from both the classes, therefore, are presented in the following lines for what they are worth.

During the course of our inquiry about 19 artisans were studied among whom were carpenters, blacksmiths, tailors, barbers, tanners, etc., nearly equally distributed among all the districts of Gujarat. Of this number 9 were in debt in 1938-39 and their total and average burdens amounted to Rs. 5,130 and Rs. 570 respectively. Four artisans managed to reduce their pre-war total debt of Rs. 3,005 to Rs.500 by 1944. However, it is significant that very little reduction in debts was brought about through the increased earnings from their crafts as an amount of Rs 2,205 out of it was repaid by selling crops raised on the lands which were cultivated in addition to their work as artisans. Two more artisans increased their debt from Rs. 800 in 1939 to Rs. 1,400 in 1944 mainly to meet the inflated maintenance expenses. One artisan sold ornaments to meet expenses on household and ceremonials and managed to keep his debt at the pre-war level of Rs. 150. Another artisan who used to regularly pay interest on his debt of Rs. 2,000 normally could not do so on account of the war. Two more artisans who were free from indebtedness borrowed Rs. 1,100 in the aggregate, but here again the bulk of the amount was borrowed for purposes other than maintenance and only Rs. 150 were utilised for meeting domestic needs. These figures do not display any clear cut trend but certainly indicate that the war did not create happy conditions for this class of the rural population. Their cost of living and the materials required for their crafts rose from 100 to 300 per cent during 1938-39 to 1943-44. Scarcity and high prices of daily requirements, high cost of charcoal, implements, labour and the unavailability of iron and iron tools reduced their business turnover. They could not raise the charges for their services in proportion to the rise in the cost of materials, while their business remained the same or fell

below the pre-war level. Out of the eight artisans who stood the impact of war without adding to their debts or incurring fresh financial obligations, three cultivated some lands in addition to their crafts and the remaining either received payment for their services in grains, carried on a little farming or commanded side incomes in that the women of their household worked as casual labourers or midwives and afforded financial relief to the family.

On account of the ignorance of the agricultural labourers it was difficult to obtain figures of indebtedness of this class. The difficulty was enhanced by the prevalence of the practice of borrowing in kind. In respect of labourers who were paid wages in kind and who continued to so receive them during the war also there was no indebtedness worth the name both before and during the war except for casual loans of a few rupees or small quantities of grains now and then for short periods. Even those receiving cash wages normally, but who could manage to obtain wages in kind during the food crisis, either on account of better bargaining power or out of sympathy of the employer, saved themselves from running into debt. Out of 20 labourers about whom information could be collected four received wages in kind and two more both in kind and cash. They were not required to borrow money for maintenance. Out of the remaining 14, four labourers, besides working in the fields cultivated small pieces of land and from these two sources earned enough for livelihood. Of the remaining ten, 4 were indebted even before the war and the debt aggregated to Rs. 145 or about Rs. 36 on an average per labourer. By 1944 the figures of their total and average indebtedness rose to Rs. 515 and Rs. 129 respectively. The six labourers that are left used to earn sufficient cash wages to maintain their families, but found it difficult to carry on even though cash wages rose by 250 to 300 per cent on the whole and had to borrow to the tune of Rs. 865 in the aggregate or about Rs. 145 each on an average. One of these labourers had savings amounting to Rs. 70 in 1939 which were wiped out by the end of 1942-43 and he had to incur, in addition, a debt of Rs. 60 for maintenance. In the case of another labourer of this group, the debt piled up till April, 1943 when he switched over to receiving wages in kind was Rs. 55.

The foregoing discussion will show that the plight of the agricultural labourers and rural artisans was the worst. It may be said that with the exception of the far-

mers employed in cultivation of garden crops and tobacco and others with holdings of more than 35 acres and raising dry crops, the prospects for the cultivators with small holdings and who raise essentially dry crops, the artisans and labourers do not promise to be rosy with the prolongation of the war in the East. It seems, therefore, unlikely that the majority of the farmers would emerge out of the war free from their debt burden and there are indications that not a few of them might make substantial additions to their financial commitments during the remaining phase of the war.

NOTES AND MEMORANDA

A POLICY OF STABILIZATION OF AGRICULTURAL PRICES

Stabilization of agricultural prices has a necessary place in India's post-war economic planning. Large fluctuations in the prices of agricultural commodities militate against the agriculturists making sustained efforts to improve the yield of land. Part II of the Bombay Plan suggests that for the principal agricultural crops, the government should adopt a policy of fixing fair prices. According to the Second Report on Reconstruction Planning published by the Government the stabilisation of the price of agricultural commodities at an economic level is essential. This will provide the necessary incentive for bringing additional land under cultivation and for the general upgrading of the means and technique of production.

There are other points of views from which the question of price-stabilization may be looked at. As soon as the war ends a fall in agricultural prices seems to be inevitable.* A collapse in agricultural prices will mean

*There are some who would discount the possibility of a serious fall in agricultural prices on the termination of the war. They expect the economic history of last world war to repeat itself. For example, in the Punjab the highest price per maund of rice (Rs. 9·6), of wheat (Rs. 6·1), of barley (Rs. 4·4), of bajra (Rs. 7·1) of jowar (Rs. 6.1) was touched in 1919 and the highest prices of these articles in 1918 the last year of the war-period were Rs. 7·2 (rice), Rs. 5·0 (wheat), Rs. 3·5 (barley), Rs. 4 7 (bajra), Rs. 5·5 (jowar). Price per maund of these commodities in 1914 were (rice) Rs 5·7, (wheat) Rs. 3·8, (barley) Rs. 2-7 (bajra) Rs. 3-5, (jowar) Rs. 3-2.

The rise in prices after the last war was mainly caused by a severe famine, and this was reinforced by a trade boom in the international markets.

Conditions are quite different in this war. Prices of food products and agricultural commodities after having touched their peak levels in June 1943 (Index Number of food and tobacco 303.3 and index number of agricultural commodities 303 3) started a mild retreat. There are no prospects of prices resurging in the immediate future now. The country experienced a food famine of the worst type during the war, and the grow more food activities of the Government and the existence of an independent Food Department of the Government of India are guarantees against a food famine being repeated in the immediate post-war period. In view of the manner in which economic controls abroad have been worked

a severe contraction in the incomes of the large body of Indian humanity connected with agriculture. On account of costs of production not falling simultaneously with and in proportion to the fall in agricultural prices, and because of a larger proportionate fall in agricultural prices in comparison with industrial prices the agriculturist's income will be nibbled at both ends. This will seriously cut into the effective demand of the Indian market. Industrial prosperity will consequently be inhibited by shrinkage of agricultural incomes.

Stabilization of prices of raw materials relating to food is expected to lead to stabilization of consumption of these articles in the diet of a farmer's family. It has been observed that when prices of agricultural raw materials are low, the farmer sells more of these things and also of milk, ghee etc. in order to meet his expenditure and support his falling income. Thus strangely enough, a period of low prices may also be a period of low nutritional standard. With high prices, the standing commitments of the farmer are not easily met by selling a smaller volume of goods. He, therefore, need not stint the consumption of those goods which he is producing. A fluctuating nutritional standard may, therefore, be avoided by stabilizing agricultural prices.

Price-stabilization is going to be a front rank problem in the period of transition from war to peace. For if the prices prevailing during the war are allowed to crash suddenly on the termination of the war, the consequences are going to be disastrous. The Government of India has already taken important decisions in the interests of the cultivators to support the wheat market and have guaranteed to purchase all wheat of FAQ standard offered in the assembling markets of the Punjab, U.P. and Sind at Rs. 7/8 per maund. The Government of India has also announced a similar guarantee to purchase all bajra and jowar offered in the main producing areas at the floor prices of Rs. 6 and Rs. 5/8/- respectively.

Price-guarantee in the United Kingdom has followed a more scientific basis. In the United Kingdom the prices of most agricultural products are fixed for each season, and

during the war period and their possibility of being withdrawn only by stages, it may be expected that no sudden boom will be allowed to develop in the international market on the termination of the war. Hence no upward push to agricultural prices in India may be expected from international markets.

the market guaranteed for the duration of the war and for a year afterwards. The prices fixed in order to call forth increased production are calculated according to the Ministry of Agriculture, to provide the possibility of adequate returns on third-class farms. A part of the excess profit accruing to the more efficient farms may provide the nucleus fund out of which the cost of price-stabilization may be met.

Price-stabilization is not an end in itself. This policy is advocated to secure income stabilization and does not necessarily aim at keeping prices pegged at the high war-time level. Income stabilization depends upon the level of economic activity maintained. The relation between income, prices and economic activity was unerringly pointed by the Finance Member in his sixth war budget in the following words: "There is a tendency to argue that the high level of prices which has been reached during the war—when so large a proportion of the productive powers of the nation are devoted to non-civilian ends —must be maintained in the post-war period, otherwise it will not be possible to raise the necessary resources. I believe this to be a mistaken view when the productive power of the nation is turned from manufacturing for war to manufacturing for civilian use, there will be a larger supply of goods available and this additional supply must result, in my judgment, in lower prices for these goods. But if simultaneously the total volume of activity deployed during the war can be maintained and even increased, the total national income can be maintained and even increased in spite of a fall in unit-prices. *It is the maintenance of the aggregate national income in terms of money and not the stabilization of prices of individual commodities that should be the objective in the years after the war.*

Thus viewed price-stabilization cannot be attempted as an isolated measure. The level at which output is stabilized will influence the price-level, but the level of employment maintained after the war will influence both the demand for the output and the price-level at which a given demand can be maintained.

In choosing the level of stabilization for agricultural prices it has to be borne in mind that a very high level for foodgrains in addition to continuing the cost of living at an unbearable level, would also tend to keep the cost of production of manufactured goods unduly high. The level at which agricultural prices are to be stabilized must bear relation to industrial prices and prices in general. But

if agricultural prices are far removed from industrial prices not only will that affect the prosperity of the bulk of the Indian population, but such a situation will also stunt industrial development by cutting at the root of purchasing power of the people for manufactured goods. Any level of price stabilization aimed at must also take into account agricultural costs of production and the minimum (desired) standard of living of the cultivators.

Stabilization of agricultural prices has both a national and international aspect.

Control of acreage under each crop is suggested as a facile remedy for helping price-stabilization. Crop regulation, if it forms a part of crop planning may be found to be of assistance, but as isolated measures, crop restriction would produce confusion. Output reduction programmes should not be advocated or opposed indiscriminately without reference to gross income. If elasticity of demand is greater than unity, gross income would decline with decreases in production; while if it is less than unity, the total income would be increased.

Another consideration that should be borne in mind while practising control of acreage is the conflict between social value of the crop in question and the profit motive determining a given acreage. While it may be socially desirable to increase the area under food crops, it may be more profitable to extend the area under commercial crops.

The other alternative to restriction of acreage is increasing attention to processing of agricultural raw materials. This would maintain demand for the produce from land at the stabilized price-level and would also give stabilized income from the farm. Processing of agricultural produce could also bear a small tax which would go to the fund needed for price-stabilization.

The present high prices of agricultural produce have temporarily increased the purchasing power of the rural population. This increase in rural wealth can form the basis of a rural market for rural industries. Both these advantages will be quickly dissipated when agricultural prices start falling. Hence the present opportunity offered by the temporary increase in rural wealth should be used as a 'springboard' for rural industrialization which would maintain agricultural incomes by introducing in the rural areas other means of earning and employment in addition to those supplied by pure agriculture.

Price-stabilization may also be sought to be a remedy against international competition created by disparity of agricultural progress between countries carrying on mechanised extensive farming and those continuing with primitive small-sized husbandry. The former type of countries get compensated for a fall in prices by realising larger value from increased output. The small-unit farmer bears the brunt of diminished prices.

Changes in the general price level owing to monetary causes have constituted the greatest single factor in creating agricultural depression. The monetary remedies for instability lie outside the purview of this small paper.

Similarly the blow of international competition may have to be tempered by tariff measures or establishing a complete control or monopoly of foreign trade in those goods in which competition is very keen.

So long as the need for the retention of economic controls exists the machinery for price-stabilization is already there. It may be pointed out that absolute stability of prices is not to be desired as it is not only incapable of attainment but also implies an undesirable degree of rigidity. Stability of agricultural prices is aimed at with a view to income security. Price-stabilization would, therefore, be attempted within the margins of variations.

In a progressive community, the problem is really one of stabilizing returns as a whole rather than of maintaining a fixed price per unit of output. The provision of adequate information as to supplies and prices, actual and prospective would also help to reduce the irrational movements in market prices.

D. A. V. College,
Lahore.

P. C. MALHOTRA

CEREAL RATIONING IN THE MADRAS PRESIDENCY

Rationing of the essential requisites of human existence, particularly food, has been adopted as a vital aspect of war economy by every nation to maintain a high level of efficiency under the restricted conditions of supply in war-time. Since the main object of food rationing is to provide sufficient and proper food based on nutritional

requirements to every individual, an adequate supply is necessary for this scheme to be successful. A control of foreign trade, together with a planned policy of procurement is essential to ensure a steady supply of the rationed foods. Countries which depended normally on foreign imports of foodstuffs, have planned for increasing the home production to minimise the dependence on the uncertain imports in war-time. An effective price control to reconcile the interests of the marginal producers and the poor consumers is necessary for any policy of procurement and distribution. Although the details of food rationing vary in different countries depending on the degree of scarcity of foodstuffs relative to the requirements of the population, the need for providing adequate food has been realised by every nation and a careful plan is adopted ever since the outbreak of the war to attain this object.

In India, the problem of providing food for the population was not considered as a policy of war economy till the outbreak of hostilities in the Far East and even the control exercised after 1942 was primarily intended to check the acute scarcity which was mainly due to the cessation of grain imports from the Eastern countries. The "Grow more food campaign" together with measures to control prices were first introduced and were rapidly followed by schemes for rationing and procurement. Although the Government of India is attempting to have a coordinated policy for foreign trade and the allotment of food-grains to various provinces and States, still the complete control of procurement and distribution is entrusted to the provincial governments to shape in a manner suitable to the local conditions.

Madras Presidency even in normal times was having on an average a net import of about 848,000 tons of food-grains[1] of which rice from the Eastern countries formed the major portion. The war in the East effected a rapid curtailment of these imports which, in conjunction with other factors complicated the food situation, resulting in a scarcity of food-grains, particularly rice. The Government first adopted measures to enforce a control over trade for preventing the export of this grain and later attempts were made to control the prices and internal movement of rice. But the scarcity for this staple food was felt so acute that the Government was forced to introduce rationing in

[1]Total of cereals and pulses.

the Madras City from 5th September 1943. It was gradually extended to urban areas first in districts having a deficit production of rice, then in surplus districts, and at present statutory rationing is working "in all municipal towns in the province and in the rural areas of Malabar district." Besides rice, millets are also included as a part of the ration in some areas which are deficit in the production of rice and from November 1944, wheat is made a part of the ration. Under this scheme children between 2 and 12 years are allotted one unit and adults over 12 years are allowed 2 units, a unit weighing about ½lb. of cereals. Although a provision is made to allow an extra ration not exceeding one unit to labourers engaged in hard manual work, still the system of rationing is based mainly on the adult daily requirement of a pound of cereals which is the quantity specified, along with many other foodstuffs, for a well-balanced diet yielding a total energy of 2,600 calories. Since the production of the supplementary foods like pulses, milk, meat and vegetables, needed for a well-balanced diet, besides rice, are so low in this Province, that it is not possible for the normal diet of the bulk of the population to approach this standard. Even the Food-grain Policy Committee fixed a pound of cereals as the minimum limit below which the ration "should not be allowed to fall", and as such the quantity allowed for an adult must be fixed to yield the energy requirement of 2,600, consistent with the existing supply of other foodstuffs, although it may result in an unbalanced diet. Since "enough food should take precedence over the right kind of food", an adult ration must be raised to 1¼lb. (which yields about 2,000 calories, leaving the remaining for other foods. Further it is not possible to assume that children up to 2 years live on a diet without the staple food of cereals, especially in this Province, where the per capita production of milk is so low as 3·6 oz. Under the existing conditions it is necessary to alter the definition of the child to include from the date of birth to the age of eight instead of 2 to 12, as recommended by the recent All-India Food Conference.

The experience of rationing has shown that even the pound of cereals allotted is not taken fully by the consumers. But this may be attributed to the lack of purchasing power rather than the inability of the people to consume the allotted ration. The retail price[2] of rice on which the

[2]The price of Rice II sort per imperial maund was Rs. 4.00 in August '39 and Rs. 9.76 in December '44.

maximum control is exercised, is more than twice that prevailed before the commencement of the war, and the prices of other foodstuffs are relatively at a higher level. The cost of living even of a labour class in the Madras City has reached a level of 213 by December 1944 relative to August 1939 and greater must be the increase in the cost of living of the bulk of the population. The incomes of a large portion of the consumers might not have shown a proportionate increase to enable them to take even the pound of cereals, which is the quantity needed for a balanced diet yielding the necessary energy for the life and health of a normal individual along with the other necessities of life. As such the failure of consumers to take the full ration cannot be considered as a sufficient reason to assume that the present scales of ration are adequate. The exact needs of the population can only be ascertained when the prices of all the necessities of life are brought to a level low enough to be within the reach of the purchasing power of all consumers.

Taking the estimated figures of production of foodgrains for the fasli year 1943-44, the quantities available for consumption after allowing for husking and seed requirement are :

Rice	...	4,727,626.7	Tons
Cholam, ragi & cumbu	...	2,151,471.3	,,
Other millets	...	407,952.3	,,
Total	...	7,287,053.3	,,

If the growth of the population is assumed to remain the same as in the previous decade, the estimated population for this year will be 50,150,199 and the annual cereal requirement at a pound per adult daily works up to 6,635,048.7 tons, taking the age composition to be the same as given in the 1931 census. This requirement is not only less than the total cereal production, but also less than the available quantity of the four main foodgrains, rice, cholam, ragi and cumbu which is 6,879,098.0 tons. If the population of the Province need only a pound of cereals per adult daily, there is even a surplus in the home production and as such it is not possible to explain the average net import of 711,000 tons of cereals in normal times.

Since the rationing with the exception of Malabar is only confined to urban areas, the unit of ration, even

taking it for granted that it is sufficient for urban population, cannot be considered as adequate for the rural areas where most of the people are hard workers engaged in agriculture and other manual labour. Further many supplementary foods available for urban population may not be within the reach of rural folk and as such they need at least 1¼ pounds of cereals daily to yield the necessary energy. But under the present policy of procurement the landholder is allowed to retain a quantity of grain based on the adult daily ration of a pound besides the seed requirement. Since this allotment is not even sufficient to yield the normal energy of 2,600 calories, under the existing conditions, the producer will have an incentive to hoard a quantity of grain which may even exceed his requirements. As a consequence compulsory requisitioning has to be resorted to procure the surplus quantity from the landholder. Since the success of any policy of procurement depends only on the complete co-operation of the agriculturists particularly in this Province where the production is distributed among a large number of producers having only a small surplus, any measure of requisitioning which may lead to coercion must be avoided. The procurement policy will be more effective if a sufficient quantity of grain is allowed to the producer and arrangements are made to take the surplus whenever he is prepared to part with it.

Assuming that the rural and urban population retain the same proportion as given in 1941 census, the total estimated population for this year excluding Madras Malabar will be 46,156,388 of which 38,545,200 belong to rural areas. The total number of adult rations based on the age composition of 1931 census work up to 31,296,582 and the annual requirement of the rural population will be 6,374,582.8 tons. Excluding this from the total quantity available for consumption, the grain left out for the rationed areas is 912, 467.5 tons. The actual consumption of different cereals in the rationed areas for the month of January '45 is.[8]

Rice	...	1,627,751	maunds
Paddy	...	758	"
Millets	...	15,165	"
Wheat	...	157,148	"

[8]Compiled from the figures of consumption in the rationed areas given by the Commissioner of Civil Supplies.

The total cereals excluding wheat and allowing for the loss in wheat due to husking is 1,643,424 maunds. Since wheat forms a sixth of the pound ration, the total quantity of cereals needed for allowing the full ration without this grain will be 6/5 of cereals consumed which work up to 1,972,109 maunds. Calculating on this basis the annual requirement of the rationed areas will be 869,337.8 tons which is less than the available quantity.

The above estimates indicate that the production of cereals is sufficient to meet the requirements of the rationed areas for providing a pound of cereals per adult daily at the existing rate of consumption even after allowing at a daily adult requirement of 1¼lb. for the rural population. But here no allowance is made for wastage and hoarding and the actual problem of procuring the surplus grain from the producers and distributing to the consumers involves certain difficulties. Since there is very little movement of millets within the province, even in normal times, it may be assumed that all the minor millets are consumed in the local areas of production and even the other millets cholam, ragi and cumbu are utilised as a supplementary food rather than a complete substitute for rice in areas having a large production of these grains. Further the local consumption will usually be more in areas with a surplus production than those having a deficit. Under the existing system of procurement licensed middlemen and millers secure the grain necessary by offering a price not more than the ceiling prices fixed by the Government and export it, under the permit of the concerned officers to the required areas. Since the fixation of ceiling prices leaves the middlemen and millers to bargain with the agriculturist and purchase grain at the lowest possible price, the producer prefers to retain the grain to secure a better price which hampers the procurement of the required quantity. All these factors may necessitate the import of some grain to provide a sufficient quantity of foodgrains to the rationed areas even at the present rate of consumption. But the import should only be restricted to a grain whose production can be rapidly increased within the province, and which can be consumed by the population without involving a violent change in their consumption habits. Since the scarcity felt is mainly in rice, the immediate object must be to obtain imports of rice, if possible, and gradually displace them with the increased home production of this grain to attain self-sufficiency. If it is not possible to secure rice

any other foodgrain whose production cannot be increased in the province, must only be imported as a last resort.

Till November '44, rice was issued to most of the rationed areas, and cholam, ragi and cumbu formed a part of ration with rice in other areas where the millets are produced on a large scale. This allotment of grain fully satisfies one of the main principles of rationing which is to retain "the tastes and habits of the various communities." But in November what was introduced as a part of the ration and was gradually extended to all rationed areas. At present it forms at least a sixth of the pound of cereals and is made compulsory in certain deficit areas and to all establishments. Wheat can never be produced on a large scale in the province and the people are not accustomed to take it as a part of their daily diet. As such the introduction of wheat in the ration should be resorted to only as a temporary measure till it is possible to secure sufficient quantity of rice either by import or by an increase in the home production. Since the experience of the past few years has shown that it is essential to make the province self-sufficient in regard to her food resources, even an import of rice must be restricted to the minimum quantity and should be gradually curtailed with the increase in home production. The consumption figures of wheat for the month of January '45 (157,148 maunds) is not even a twelfth of the allotted ration which indicates that the people are not inclined to take to this grain readily. Even as a temporary measure wheat should not be made a part of the ration in areas having a surplus production of rice. Since even a pound is not an adequate quantity, a part of that to be substituted by a grain to which the people are not accustomed to consume will induce the consumers in those areas to obtain rice from any source even at a high price and to prevent this condition an active vigilance is necessary. As the complete co-operation of the consumers is a condition precedent for the successful working of rationing, any such measures which may lead to coercion should not be adopted. Even in the deficit area consumption of wheat can be left completely as a voluntary measure.

The following table shows the trade in foodgrains after the introduction of wheat in this province :—

Month.		Import in tons.		Export of rice-tons.
	Rice.	Millets.	Wheat.	
November '44 ...	21,660	6,304	26,573	1,789
December '44 ...	17,756	2,554	19,310	1,509
January '45 ...	4,852	1,550	6,307	8,376
February '45 ...	6,004	1,464	1,283	
March '45 ...	5,216	2,621	3,013	

The fall in the imports of wheat indicates that this grain is not so popular as was expected in spite of the propaganda conducted by the Government. It is not possible to estimate the net trade in rice and millets as the figures of imports alone are available. Even the export figures of rice to Travancore and Cochin States shown in the last column of the table are given only for a few months and are suspended from publication.

Besides introducing wheat as a part of the ration, "with a view to encourage the consumption of wheat" it has been decided to sell it at "half a measure per rupee cheaper than rice" and an annual provision of 52 lakhs is made in the recent budget to subsidise the loss thereby incurred. This policy of attempting to acclimatise the population to wheat by not only making it compulsory in some areas but also by selling it cheaper than rice, will completely defeat the ultimate object of sufficiency aimed by the 'Grow more food campaign' and make the province depend more on foreign imports. The amount spent on subsidising wheat may profitably be spent in reducing the retail price of rice. Further under the existing scheme of procurement only the maximum prices to be offered for purchasing grain is fixed and as such the poor agriculturist who is incapable of withholding the grain for a long time is first exploited whereas the benefit of better price goes to the rich farmer.

The fixation of a minimum is also essential to ensure a fair price to all classes of producers. The ceiling prices for the year 1944-45 are retained almost the same as for the previous year. In view of the existing conditions, larger sums can be utilised by the Government to bear the loss incurred in offering a higher purchasing price for rice and selling it at a lower rate. This policy of subsidising rice will help to stimulate the home production and at the same time will enable a large portion of the population to obtain the full ration at a fairly low price.

The schemes for procurement and distribution must be so regulated as to stimulate the increase of home production of foodstuffs for making the province self-sufficient. The producer must be ensured that "his interests as well as those of his dependants and of his village are protected" and surplus grain must be taken whenever he is prepared to part with it, guaranteeing a minimum reasonable price. The main object of rationing should be to provide a sufficient quantity of foodgrains based on the energy requirements at a fairly low price to enable all consumers to take the full ration.

Madras University. D. V. RAJALAKSHMAN

A NOTE ON CONDITIONS OF COTTON MARKETING AT HATHRAS IN 1944

Situated in the Aligarh district and with a population of about half-a-lac simple and moderately educated persons, Hathras is famous for being one of the biggest cotton Mandies of the U. P. Besides cotton, it is also an important market for foodgrains and ghee. Being at an approximately equal distance from Aligarh, Muttra and Agra and also having a central position in relation to a large number of villages around it, its importance as a marketing centre has assumed quite sound proportions and the market activities of the place are gradually being placed on a proper and more stable footing by the regularising functions of the local chambers of commerce. Some of the older persons of the city have generally been found to say that "there was a time when Hathras used to match even Bombay in its trade and commercial activities." Whatever it be, it is an indisputable fact that Hathras is a very old Mandi and even now claims to be an important cotton marketing centre in Northern India.

Cotton marketing, according to the Indian season of cotton crop, begins at this place from about the month of

October and lasts for about 2 to 3 months. Though a large number of businessmen and other persons is interested in cotton marketing, no particular Arhtia is found to specialise in cotton marketing alone and it is the general practice of the local Arhtias to deal in all the food and commercial crops brought to them by the villagers.

For purposes of marketing, raw cotton is brought to this place from distances ranging from 10 to 35 miles. The produce is almost always brought to the place by Mahajans, who, by virtue of the loans advanced to the growers in the village during or after the harvesting seasons, are able to purchase the entire crop at cheaper rates in repayment or otherwise of their loans. Only those ryots who possess a sufficient amount of capital of their own and who are able to pay back the loans of the Mahajans in cash, bring their produce themselves. However, at the risk of repetition, it may be pointed out that the latter cases are almost rare and what generally happens is that the Mahajan brings the produce to this place for marketing it.

The most common means of transport used by the Mahājans or growers to bring their raw cotton to this place is the bullock cart which generally has a capacity of bringing a weight of 10 to 15 maunds in it. Such carts may either be owned by the Mahajan or grower or else they might be taken on hire from some other person owning it. Other means of transporting the cotton produce from villages to this place are asses, mules and to some extent camels as well. These are used by those growers who have small produce and who cannot or do not like to afford the expense of a bullock cart because of the small produce.

It is a very prevalent practice among the Arhtias of this place to send their agents or go personally to a distance of about a mile or two on the common route of the Mahajans or growers to receive their old patrons and/or to persuade the new ones to market their produce through them.

METHODS OF SALE OF COTTON AT HATHRAS

The usual arrivals of raw cotton at this place approximate between 800 to 900 maunds per day. These arrivals generally increase up to 1000 maunds or more at certain occasions during the season.

The Mahajans or growers bring their carts or so to the shop of the Arhtia whom they have chosen or who has already some business relationship with them. The number

of kachcha Arhtias at this place is 123 while the pucca Arhtias number 26. The most important places where cotton is marketed are: Rui-ki-Mandi, Mursan Gate and Mohan Ganj while others are Lohat Bazar and Naya Ganj. Thus the market here is a decentralised one. In all these places, the kachcha Arhtias have their shops and it is on their 'phar' or road in front of their shop that they shelter the carts etc., containing the cotton produce.

The sale of cotton produce at this place is usually effected in the afternoons or evenings when the Arhtia gets himself free from sale transactions of other foodgrains, etc. The method of sale of cotton produce is similar to methods followed in sale of other food and commercial crops. That is to say, the broker or the agent of a purchaser comes to the Arhtia's place, inspects the quality himself and takes a specimen from it to be shown to the purchaser which is generally a Mill or a pucca Arhtia. If the quality is approved, the purchaser tells his broker or agent the maximum price to be quoted for the same. The broker or purchaser's agent again comes to the Arhtia's shop and quotes a rate below that actually told by the purchaser and tries to strike a bargain at a lower price than the one fixed as maximum by the purchaser. This is done by the broker or agent of the purchaser simply in order to gain a good opinion about himself from the purchaser. Later, when the price is settled, which is always in terms of so much units of commodity per unit of money, the contract of sale is entered on a piece of paper, which is later termed as 'parcha'.

There is one welcome feature in the cotton marketing practice of this place that if, suppose the rate is settled at 4 seers a rupee and weighments at that rate have begun, and if later, some other purchaser's broker or agent comes and quotes, say, 3 seers and 15 chhataks a rupee, the Arhtia has a right to sell to the latter only during the time the first palla sent to the purchaser has not been delivered at his place. It is true that the Arhtia does take advantage of this right and for the purpose of checking delivery of the first palla at the first purchaser's place, either goes himself or sends his weighmen to check the palledar. When this is done, the produce is weighed for the second purchaser and the former transaction is cancelled. However, such subsequent increase in rates for the seller does not happen occasionally.

When the contract of sale has been entered into, the

Arhtia sends the produce from his place to the purchaser's place in pallas which are carried by palledars on a charge of 3 to 4 annas per palla. Each palla is weighed on a beam scale and the usual weight is 12 dharies or 1½ maunds. This weighment is done on the basis of 40½ seers per maund which is the standard under Government orders for cotton weighments. The pallas thus sent are again weighed at the purchaser's place where the Arhtia's agent is also present to note the shortages. But at times, and it is a frequent happening that the Arhtia's agent does not go to the purchaser's place to look to the weighments and to note the shortages. In such cases, the shortages per palla are informed to the Arhtia concerned, through the very palledar whose palla has been found short by that weight. Thus these palledars on their return notify the Arhtia about the shortages in their respective pallas, and these are recorded by the Arhtia's munib in the palla bahi against the name of the palledar. In certain cases, when the shortages are sufficiently big and the Arhtia's agent is not there, the particular palla of such big shortage is detained by the purchaser and not mixed in the heap till the shortage is notified to the Arhtia and the point settled. After despatching all the produce from the seller's place to the purchaser's place, the total amount to be paid for the produce is calculated after deducting the above shortages from the total produce sent.

But before such calculation of the final amount to be paid to the seller, the batta question has also to be given full consideration, as it is a hard fact that Indian cotton produce, as also other produce, is adulterated by mixture of different qualities or by admixture of soil, small stones, water and so on. The batta question is mostly settled beforehand in the form of a reduced rate for the total produce. In case, it is not done, the batta charge per palla is settled and later deducted from the total amount to be paid. On receipt of a palla, the purchaser's agent or broker sees critically whether the quality being sent is the same as contracted for or not. If it is found that the quality in one palla is not of the same standard, a batta charge becomes due from the seller and it varies between 4 annas to Rs. 2 per palla. If quality is found bad or not to the standard in the middle or even in the final few pallas or palla, the batta charge is made not merely from that palla onwards but from the first to the last palla *i. e.* for the total produce. In exceptional cases, when quality of the former pallas is approved by the purchaser to be satis-

factory and to the standard, this charge becomes payable from the palla of exceptionally bad quality only.

MIDDLEMEN'S CHARGES

The total charges that a Mahajan or grower as a seller of cotton produce has to pay amount to Re. 1-1-0 per cent as follows:—

Sagirdi	0 12 0	per cent.
Brokerage	0 5 0	do.

Both these sums are deducted by the purchaser from the total amount payable for the produce and the balance is sent to the Arhtia. The amount realised as Sagirdi is kept by the purchaser in full for himself, while as regards the sum of brokerage, it is a common practice to pay only 0-2-6 per cent to the broker and to keep the remaining 0-2-6 per cent as Gaddi charges. It may be added here that while making selections of cotton qualities in the market, a broker takes one chhatak per maund as specimen from the total produce and it is either kept by the broker himself or is handed over to the purchaser—more generally the specimen is kept by the broker himself. Some of the big businessmen of this place pay full 5 annas per cent, as brokerage to their brokers and in that case they do not allow their broker to take any specimen from the produce at the Arhtia's place. In case the broker does not comply with this fact even after receiving full brokerage, he is disallowed further connections with the firm or particular businessman. This is done by the local big businessmen simply to mark themselves as 'big' as it is thought by them to be a degrading thing to find their brokers accepting specimens from the Arhtias.

The charges of a kachcha Arhtia himself, amount to 0-2-3 per maund and these have to be paid by the Mahajan or grower to the Arhtia in addition to the charges as mentioned above. The kachcha Arhtia has further to pay the following out of his own receipts of 0-2-3 per maund from the Mahajan or grower :

Tulai	...	0-2-6 per cent.
Chabena	...	0-3-0 to 0-3-6 per cart.

The charges paid by the kachcha Arhtia under the head 'chabena' are paid to the cart driver on the whole cart and not per cent or per maund. Again, if the seller does not like to pay the full sagirdi or brokerage to the purchaser

as detailed above, the Arhtia, if his past trade relations with that particular Mahajan or so be very sound, pays the excess over that paid by the Mahajan or grower, from his own receipts of 0-2-3 per maund.

QUALITY OF COTTON AND ADULTERATIONS

The quality of cotton marketed at this place is mostly 'short-stapled Indian cotton'. Although, it is generally found containing various qualities of Indian cotton, it is said that such mixtures are never deliberate, as it often happens that 3 or 4 *kashtkars* or growers are in debt to the same Mahajan and when all those growers sell their cotton to the same Mahajan, the latter brings the total produce thus received from the growers in one lot and thus various qualities may get mixed up. Such differences in quality are not particularly marked but are a result of minor differences in conditions of fertility of various farms, irrigation facilities, quality of seed etc.

Besides Indian cotton, some American cotton is also brought to the local markets for sale. Such cotton is mostly grown on farms under government supervision and no attempt has so far been made by the ryots of nearby villages to grow it to any extent. In the case of American cotton, the most usual mixture is that of cotton particularly known as '520 cotton' and it is again not deliberate but is due to the fact that both American and '520 cotton' require same conditions for their growth and so some '520 cotton' growing in the same field along with American cotton comes mixed, with the latter. However, American cotton has never been found mixed with Indian cotton produce.

About damping and other forms of adulteration practised in other parts of the country, an enquiry was made and one of the prominent Arhtias from his own experience said, "People do not even know of such methods of adulteration".

LOCAL PURCHASERS AND EXPORTS

Among purchasers of raw cotton, marketed at this place, the local purchasers hold almost a monopoly, because exports from this place are very little. The most prominent local purchasers are :—

1. Lallamal Hardeodas Cotton Spinning and Weaving Mills Ltd.

17

2. The New Ramchand Cotton Mills Ltd.
3. The Bijli Mills.

About more than 80 per cent of the total cotton marketed at this place is purchased by the above 3 mills. Other important purchasers are the local 5 to 6 gins which use cotton in making gaddas, etc., and the pucca Arhtias also purchase raw cotton as well as cotton bales for some export business or resale to the local mills at favourable prices. As the local mills purchase nearly the whole of the produce, there is hardly any surplus left for purposes of export. It is even at times necessary for the local mills to import cotton from other places like the Punjab to meet their requirements well.

FACILITIES FOR STORAGE

Beginning from the village, we find that the poor grower is always unable to store his produce for a favourable price even when he fully knows the advantages of storage. Thus storage is mainly done by the Mahajans or big ryots who can meet their immediate expenses without a hurried sale of their produce. As cotton is not liable to quick perishability or deterioration, the Mahajans or growers can afford to keep it for longer periods. To illustrate, it has been noted by the local Arhtias that last year only a part of the total cotton produce was brought to the market and the rest was kept by the Mahajans or growers for a favourable price. It is expected that that stored cotton may be brought this year as prices are more favourable than those of last year or otherwise the Mahajan may separate the seed from lint and sell the former and again keep the latter for a future rise in prices.

Generally most of the mills and gins of this place have the practice of storing some amount of cotton in order to be able to keep their factory running smoothly, without any deficiency in supply of raw material. The pucca Arhtias also get their cotton pressed from the mills or gins and keep the bales in their kothas or the inner portion of their shops. If it does not suffice for accommodating all the bales, some other nearby house is taken on hire especially for purposes of storage with them. The kachcha Arhtia also keeps the Mahajan's cotton, in some corner of his shop or again in the inner part of his shop, when the latter finding the current price not very favourable wants to wait for the best possible price and therefore leaves the

produce with the former telling him the price most suitable for the sale of his produce. In such cases, when the Mahajan leaves his produce with the kachcha Arhtia, the former takes an advance from the latter for meeting his requirements of certain commodities from this place *e.g.*, cloth, bamboos, etc., and later when the produce is sold away by the Arhtia, the difference is adjusted and payment made to or received from the Mahajan, as the case may be.

MARKET FINANCE

This place does not lack in those big businessmen who have ample capital of their own and to whose credit, it is generally found that a payment is never delayed for paucity of funds. Even though the businessman may possess sufficient capital of his own, it is found to be a common practice to borrow from the local banks for purposes of meeting financial need during marketing transactions. Hence, the local six banks are not in any way less important in the market finance of this place. The banks always have an attitude of extreme cautiousness so that they never lend without security. When the Mills borrow money, they offer their cotton bales as security and these bales are either deposited in the godowns under the particular bank's control or are left in the godown or kothas of the Mill with the bank's lock over the gates of the godown, and from the loan thus taken purchase more cotton from the market. Similarly the pucca Arhtias get loans on security of their cotton bales. The amount advanced by the banks on this security of bales does not exceed 80% of the value of the bales. Such loan, the pucca Arhtia uses for making further purchases and again he may deposit his such purchases as security and take another loan for still more purchases and so on. If the price of the bales deposited with the bank falls down, the latter demands further cover, which sometimes proves embarrassing to the borrowers. The rate generally charged by these banks is 6 per cent, but in certain cases as of the Mills and big businessmen, some reduction is allowed because of the better credit and financial position held by them.

When a kachcha Arhtia stands in need of funds, he generally does not approach a bank for funds, but he goes to a big businessman of the locality with whom he has former business connections and who has confidence in the honesty of the former and takes a loan from him at the rate of 1

anna per cent per day. Generally such loan is taken by the kachcha Arhtia to meet his temporary financial stringency of a day or two, so that if he finishes his work on the same day, he pays back the lender adding one anna per cent to the total. If, however, he is unable to do so, he has to continue paying one anna per cent per day during the period of his inability to pay.

TRADING IN COTTON FUTURES

Futures in cotton along with speculation in cotton have been recently stopped and prohibited by a Government notification. That is why cotton is having no transaction in futures as well as no speculation, at this place. Formerly, there had been taking place a large amount of speculation and dealings in futures formed the major part of the local big businessmen's activities. The local people are feeling the absence of speculation and there is much of discouragement for them due to such abrupt stoppage of speculation and futures trading.

CONCLUSION

After a close study of the conditions of cotton marketing of this place it cannot be said that the system of cotton marketing at this place is organised on sound lines and that the charges of middlemen are not excessive and unjustified. The system of weighments of cotton also cannot be said to be a satisfactory one as there is a serious lack of standard weights with the result that stone weights are frequently found to be used on the beam scales. So far as cheating by middlemen or kachcha Arhtia and others is concerned, it can be said with some confidence, that it is not very much as compared to other cotton markets of the country. It is again, if true, a remarkable fact that people do not even know of the different methods of cotton adulteration.

The facilities for storage are very meagre and there is an urgent need for improvement in this direction. The system of market finance also needs some amendments in the shape of less strictness by banks in matters of security condition. The rate of interest charged by the bank also needs be lowered to some extent to enable the businessmen to take more loans to effect greater transactions in the market.

All this has to be done with the help and guidance of

the present war-minded Government, if a sound marketing system has to be evolved for bettering the lot of the poor cultivator-seller as well as for improving the economic conditions of the market as a whole, so far as the marketing of raw cotton is concerned.

Allahabad. ANAND SWARUP SINGHAL

THE AGRICULTURAL LABOURER IN BENGAL

The Bengal famine which had the entire province in its grips practically during the whole of 1943, brings into clear emphasis deep-seated evils fundamental in the economy of the country as a whole, which appeared in a crystallised form as it were, in the province. The countrywide scarcity of food shook the very basic economic foundation of the province. The land in Bengal, where density of population is highest in India are maintaining a much larger number than its productivity, with existing methods of cultivation can possibly support. There are ample grounds to suspect that while density of population is on an increase soil productivity is actually diminishing. This is true with regard to the whole of India. Keeping this in view, there is cause for suspicion that the food scarcity in Bengal is the outer symptom of deeper economic maladjustment. The causes of Bengal Famine are variously explained; a commission of enquiry sat to investigate into the truth. There was no food policy in the country until 3 years of the war had lapsed. The State thus did not anticipate events, and as a consequence failed to formulate policies which would assure minimum needs to the people. Such an opportunity did not escape the attention of a class of people who exploited the situation to their best advantage. These reasons are accepted on all hands. But it appears to us that the tremendous impetus provided by the war has proved too much for our inelastic economic structure, which is emphasised more clearly today than ever before. The short-sighted policy of the State, inevitable because of its unrepresentative character, has only accentuated the maladjustment which is deep-rooted in the economy of the country.

The crisis in Bengal has proved emphatically that an economy so largely dependent on agriculture being one-sided and unbalanced cannot cope with such extraordinary demands of the war. Bengal is the next important industrial province to Bombay but industrialisation has affected an insignificant number. This is obvious from its proportion of urban population per thousand. While in Bombay the proportion is 224 the most urbanised of the provinces, it is 135 in Madras, 130 in Punjab, 112 in C. P. 73·5 in Bengal and 44 in Bihar and Orissa.

To find out the distribution of population among different occupations it would be necessary to differentiate the industrial workers from those who depend upon agricultural pursuit which would include a very large and growing section of agricultural labourers, farm hands, and general low grade labourers of the miscellaneous and casual type on the margin of work and life. Fixed wage earners should be distinguished from the rest. It is on the general low grade labourers of the casual type, the landless labourers and cultivator-cum-labourers that the impact of the famine has told with the most crushing effect.

A brief review of agricultural conditions would not be out of place, for this would enable us to find out the reactions of the famine on those dependent on agricultural pursuits. Three broad groups of people may be distinguished among those who eke out their existence from land, the cultivating owners, the tenant cultivator, and the landless labourer. There are reasons to believe that landless labourers and cultivator-cum-labourers have increased considerably on account of small uneconomic holdings.

Cultivation is most efficient when the owner himself cultivates his own land. But caste tradition relating to agriculture has prevented that section of population which is the intelligentsia to take an active part, specially in Bengal, with the result that cultivation is undertaken either by tenants or by farm servants. In this province particularly, the bridge between the actual proprietor and actual tiller of the soil is very great ; the gap is filled up by a number of intermediaries before the actual tiller is reached. It is seldom that the proprietor of a big holding undertakes cultivation on his own, and in most of these cases evils of absentee-landlordism is rife. The practice of the higher castes is not uninfluencing those of the low castes.

Cultivation by tenants is almost always inferior to cultivation by owners, as the supreme advantage of peasant

farming is lost. But the law in Bengal as also in U. P. instead of discouraging has actually encouraged subletting. Wherever there is scope for subletting at a profit to sub-tenants, sub-tenancy increases. "As a result of the failure of the measures to discourage subletting by ryots, many of the latter have been converted into rent receivers and middlemen, while the actual cultivators are converted into under-ryots without adequate security. The legal peasant in Bengal thus has transformed himself into a middleman."* Throughout Bengal under-ryots have increased during the last few decades and agricultural efficiency is bound to decrease in such a land system.

As distinguished from the rights of the other provinces, the occupancy ryots of Bengal who form about 80% to 90% of the occupants possess the power of transfer, mortgage and lease of occupancy right. In C. P. majority of the tenants have no right of transfer. In U. P. no tenant's right is transferable and no tenant's holdings can be legally mortgaged, although the right of subletting and use of sub-leases as a substitute for usufructuary mortgage exist. Thus the power of transfer, mortgage and lease of occupancy right has created in Bengal a new non-cultivating and rent receiving class from among the ryots. A right specially intended for the actual tillers of the soil has been transferred to a class recruited increasingly from the moneylenders. The effect of this has been to reduce a large proportion of the cultivators to the status of landless labourers.

The growing evil of fractionalisation of holdings, chiefly due to the laws of inheritance, has been enhanced by poverty, indebtedness and forced sale of land. Lack of alternative occupation combined with intense land hunger has forced the existence of a growing section of population which may be called cultivator-cum-labourers. Their scanty resources, poor equipment, oblige them to combine cultivation with agricultural labour, small craft, carting, dairying etc. Thus in this way a bitter struggle is made to eke out a bare existence.

Any circumstance which has weakened the economic position of the small holder such as fractionalisation of land, multiplication of rent receivers, free mortgaging and transfer of land has increased the supply of agricultural labourers. It is little wonder that this large section of agricultural population standing as they are on

*Dr. R. K. Mukerji, *Economic Problems of Modern India*, p. 230.

slender economic foundation was unable to withstand the onslaughts of the man-made famine.

The Bengal famine has brought into prominence more than anything else, the problem of the landless labourer in Bengal. Not only has it meant mass scale destitution on this class of people but that their number has been increased to a very great extent by the cultivating owners and tenant cultivators whom the famine has uprooted in large numbers. This is substantiated by the sale-deeds registered in the affected areas of the province. In the fifteen distressed areas lands worth Rs. 10 crores have exchanged hands, and there is a definite trend of lands being concentrated in the hands of Mahajans, profiteers and contractors and the bigger landlords Professor K. P. Chattopadhya of the Calcutta University who has surveyed some of the affected districts concludes that about 20% to 25% of the cultivating owners were forced to sell their land. Here one must not forget to include all those who were obliged to surrender their lands on account of military necessity. Eastern Bengal being in the war zone large areas of land were acquired for military purposes.

There is a clear ground of apprehension for growing deterioration of agricultural efficiency. Permanent factors had been at work and the tendency was inherent in the land system of the province as stated already ; the war and the famine has only accentuated the pace of this deterioration. There is not much likelihood of the food situation of the province to improve, even though the Japanese war may be over, the remedy lies in the fundamental rehabilitation of the land system by a national government.

Crosthwaite Girls' College, Allahabad. (Miss) SADHANA GUPTA, M.A.

CURRENT NOTES

Dr. L. C. Jain, University Professor of Economics, Lahore, has very rightly drawn the attention of the Government of India to the need for training economists and satisticians for carrying on the vital task of post-war planning and development. We reproduce his timely and important observations below :

The Government of India have taken up the question of training technicians, engineers and scientists, but they seem to have ignored so far the importance of training economists and statisticians. It will be recalled that when the Government first appointed their Economic Adviser seven or eight years ago one of his principal duties was said to be to train economists and economic statisticians in the country. But not only has attention not yet been directed to this end, but even when the Government of India are sending 1,000 young men abroad for higher training they have thought of almost every other subject except Economics and Statistics for each of which, if the rumour is correct, only six persons are to be selected.

There is no doubt that there are not many trained economists or statisticians in the country. Of the few in the Indian Universities a number of them have been taken on by the Central and Provincial governments. Thus even the universities have been deprived of the services of some of the professional economists, while there is a large demand for them both from Government and commercial bodies, banks, big businesses, trade and industry. A trained economist is thus very much of a scarce commodity these days with no signs of an increased supply, but every sign of an increased demand.

If planning is to proceed in the country on right lines after the war there will be a big demand for economists and economic statisticians—senior and junior—in all departments of State as well as in agriculture, trade, transport, industry and banks. Indeed if the country is to be spared the catastrophic consequences of bungling such as have occurred in the recent months—first in the matter of food and now in regard to cloth, the very necessities of life—we must have a sufficient number of economists and statisticians to collect, analyse and interpret economic data and on that basis to formulate correct plans and devise right remedies. For is it not a fact that both the food and cloth famines are in their origin due to the absence of correct and complete statistical information ?

At the same time, it is necessary that the Universities should also be replenished by a fresh supply of economists, so that the teaching of Economics and Statistics in our Colleges and Universities might not suffer. In fact the Economics and Statistics Departments need to be definitely expanded, so that the knowledge of these essential subjects is disseminated as widely as possible as an aid to economic planning and increasing facilities are provided for training economists and statisticians in the country itself. Planning must be understood by the people at large if their co-operation is to be enlisted. For this purpose, extension of education both of a specialist and popular nature in Economics and Statistics through the Universities is urgently required.

In view of all these considerations—from the point of view of economic planning as well as from the point of view of avoiding economic or social crises—it would be highly desirable that to begin with, Government should send out at least 100 young men for Economics and an equal number for Economic Statistics. These persons should, of course, be selected on the sole ground of merit and on no other consideration, because where the larger interests of the entire country are involved we must have the very best men and not the second or third rate men who can hardly be expected to face crises through which every country must pass at one time or another.

The following figures give the targets for anti-inflationary measures, and the progress made, in the Provinces and States, in the financial year 1944-45, and the balance still to be realised to achieve these targets, as at the end of February, 1945 (figures in thousands of rupees):—

Provinces or States	Target	Amount realised April 1944 to February 1945 (in excess of sum realised in the corresponding period in the basic year 1942-43).	Balance still to be realised, to achieve target.
Bombay ...	65,00,00	24,88,55	40,11,45
Bengal ...	20,00,00	9,92,01	10,07,99
Punjab ...	25,00,00	21,63,07	3,36,93
U. P. ...	15,00,00	18,97,74	3,97,74*
Madras ...	25,00,00	19,16,01	5,83,99
Sind ...	8,50,00	7,87,57	62,43
Bihar ...	6,00,00	6,89,06	89,06*
Delhi ...	3,00,00	1,70,27	1,29,73
C. P. & Berar ...	8,00,00	17,28,71	9,28,71*
N. W. F. P. ...	1,00,00	46,21	53,79
Orissa ...	1,00,00	82,06	17,94
Baluchistan ...	50,00	24,12	25,88
Assam ...	1,25,00	1,23,88	1,12
Ajmer-Merwara	25,00	28,20	3,20*
Coorg ...	3,00	3,33	33*
Indian States ...	33,59,89	10,03,01	23,56,88
Total ...	2,13,12,89	1,41,43,80	71,69,09

*Target exceeded.

The following Provinces invested in February amounts greater than their monthly average targets :—

U. P., Sind, Bihar, C. P. & Berar, Orissa.

Up to end of February, the following Provinces had already surpassed their target for the whole financial year—in some cases by substantial amounts :—

U. P., Bihar, C. P. & Berar, Ajmer-Merwara, Coorg. It is expected that most of the others will have reached their targets by the end of March.

Results for February are less favourable than had been hoped, on account of the withdrawal in the middle of the month of the First Victory Loan, which had been "on tap" since the beginning of the financial year. Its place was taken by the issue "on tap" in the middle of March of the Second Victory Loan, and the accumulation of money seeking investment that must have occurred during the intervening month, when no such loan was "on tap," makes it probable that heavy investments have occurred in March, to conclude the financial year. Statistics for March are not yet complete.

The following statements show the amounts subscribed by each of the 11 Provinces, and by the Indian States and Centrally Administered areas, to the Indian Defence Loans, in February 1945, together with progressive totals for each Province, etc. :—

Monthly Statistics of Net Sales or Deposits (Encashments of Defence Savings Certificates) for February 1945.

(Figures in thousands of rupees)

Province.	3 Per cent. Victory Loan, 1957.		3-Year Interest Free Bonds.		5-Year Interest Free Prize Bonds.		Defence Savings Certificates.		Defence Savings Bank.	
	Subscrip. tion for the month.	Progressive total 1-4-44 to end of current month.	Subscription *for the month.*	Progressive total 1-4-44 to end of current month.	Subscription *for the month.*	Progressive total 1-4-44 to end of current month,	Encashments *during the month.*	Progressive total 1-4-44 to end of current month.	Net deposits *during the month.*	Progressive total 1-4-44 to end of current month.
1	2	3	4	5	6	7	8	9	10	11
Bombay	66,43	40,03,10	1	35	3,65	83,03	—29	—4,46	11	2,87
Bengal	50,22	6,54,27	XY	4	2,65	35,70	—31	—5,09	35	1.73
Punjab	33,33	11,68,54	XY	14	1,50	20,27	—65	—7,47	16	4,76
United Provinces ...	1,59,19	10,30 36	7	40	2,36	18,39	—63	—9,24	34,69	3,53,91
Madras	49,12	11,64,01	5	4,85	1,29	22,20	—26	—9,60	24	6,99
Sind	1,44,34	4,17,13	...	...	83	7,13	—32	—1,76	—1	—29
Bihar	1,25,53	3 32,33	...	5	33	5,59	—22	—3,36	14	21,79
Delhi	2,31	79,23	XY	4,25	46	6,86	—4	—66	XY	10,05
C. P. & Berar	6,49,07	16,34,C5	...	XY	26	3.97	—16	—2,23	2	60
N.-W. F. Province... ...	1,22	10,28	...	4	16	1,84	—4	—67	1	12
Orissa...	10,48	41,47	...	...	3	1,34	—2	—28	XY	2
Baluchistan	...	3,28	1	5	4	56	—3	...42	XY	19
Assam...	5	8,31	...	...	16	1,93	—11	—1,81	1	25
Ajmer-Merwara	1,15	12,72	...	2	12	1,38	—1	—11	XY	3
Coorg	...	...	...	...	XY	3	...	—1	...	XY
Indian States	20.75	6,37,06	XY	3,10	41	7,35	—35	—3,28	6	*31
Total ...	13,13,79	1,12,01,14	14	13,29	14.25	2,18.04	—3,44	—50,35	35,78	3,94,90

*Progressive totals modified, revised audited figures now being available for Indian States.

Province.	National Savings Certificates.		Post Office Cash Certificates.		Post Office Savings Bank.		Total *for the month*.	Progressive total 1-4-44 to end of February 1945.
	Net sales *during the month*.	Progressive total 1-4-44 to end of current month.	Net sales during *the month*.*	Progressive total 1-4-44 to end of current month	Net deposits during the month.	Progressive total 1-4-44 to end of current month		
Bombay ...	44,64	3,06,85	2,61	45,85	10,35	1,85,67	1,27,51	46,28,23
Bengal	15,80	80,07	2,52	25,42	30,92	3,36,10	1,02,15	11,28,24
Punjab	34,57	3,28,11	87	—4,60	23,28	2,21,73	91,32	17,31,48
United Provinces ...	9,51	84,68	1,39	6,62	14,07	1,69,21	2,29,65	16,34,35
Madras... ...	24,04	1,85,66	—1,33	—2,62	11,28	78,80	84,43	14,60,29
Sind	12,32	66,98	6	9,55	3,21	33,73	1,60,43	5,33,05
Bihar	17,17	1,16,68	71	2,29	3,93	73,95	1,47,59	5,49,42
Delhi	5,39	91,52	44	2,43	2,63	22,14	11,19	2,06,79
C. P. & Berar ...	7,52	40,13	29	2,91	2,84	31,41	6,59,64	17,10,84
N. W. F. Province	1,60	13,28	—1	—14	2,16	15,72	5,70	40,47
Orissa	4,37	28,99	4	—10	32	8,01	15,22	79,45
Baluchistān ...	42	4,98	—20	—20	47	5,13	71	13,57
Assam	4,35	23,31	6	56	2,32	30,29	6,84	62,84
Ajmer-Merwara ...	1,11	7,82	—2	34	9	4,31	2,44	26,50
Coorg	11	75	...	2	11	58	22	1,37
Indian States ...	45,54	†2,48,68	1,14	†15,24	5,82	†92,36	73,37	10,01,32
Total ...	2,28,26	16,28,49	6,83	1,03,54	1,14,40	13,09,14	17,09,41	1,48,18,19

*Minus sign indicates that encashments exceeded sales.

†Progressive totals modified, revised audited figures now being available for Indian States.

The Economic, Finance and Transit Department of the League of Nations has recently released information regarding world gold position, which we reproduce below:

Three years' world gold production accruing chiefly to unrecorded reserves.—In the past three years the gold reserves of the United States declined by some $2,000 million while recorded reserves in the rest of the world increased, between December 1941 and September 1944, by roughly $2,600 million. About one-half of that amount was added to Latin American reserves and practically the whole of the other half to those of four European neutrals, namely Switzerland, Sweden, Turkey and Spain, and the Union of South Africa. The net increase of approximately $700 million in recorded gold reserves only absorbed about one-fourth of estimated world gold production outside Soviet Russia in the same period. Thus, most of the gold produced during the last three war years has accrued to unrecorded reserves, the amount of new gold used in the arts during the war being negligible.*

Gold Production.—The dollar value (U.S.$) of world gold production apart from the undisclosed output of Soviet Russia rose from 1,044 million in 1937 to 1,290 million in 1940. The total was nearly as large in 1941 but fell off subsequently to about 950 million in 1943. The decline continued in 1944, but appears to have been slowing down to judge from the incomplete data so far available.

All the main producing countries shared in the decline. Production in South Africa, accounting before the war for nearly one-third of world output including Russian production, dropped from $504 million in 1941 to 448 million in 1943. Canadian production fell from 187 to 128 million, that of the United States from 166 to 48 million, output in Australia from 52 to 26 and in the Gold Coast from 31 to 20 million U. S. dollars.

Gold Reserves.—Between December 1938 and December 1941, total recorded gold reserves outside Soviet Russia rose by some 4,700 million from 25,200 to approximately 29,900 million U.S. dollars. United States reserves alone rose by

*Detailed data illustrating these trends are conveniently summarised in two special tables on gold production and central gold reserves in the latest issue of the Monthly Bulletin of Statistics No. 1 (A), 1945—just published by the League of Nations' Economic and Financial Department at Princeton, New Jersey.

$8,225 million while those of all other countries taken together (except U. S. S. R.) fell by $3,525 million, mainly on account of the disappearance of the British 1938 reserve of nearly $2,700 million from the books of the Bank of England. Most of the last mentioned amount presumably had accrued to United States reserves—prior to that country's formal entry into the war—as had also part of the central holdings of many other countries including most of the European neutrals. But a few countries other than the United States, in fact, added to their gold reserves during those early years of the war.

The main features of the subsequent redistribution of gold will be seen from the following table showing for selected countries the amounts of their recorded reserves at the dates mentioned above and the end of September 1944 together with the percentages changes up to December 1941 and between that date and September 1944.

Recorded Central Gold Reserves in Millions of U. S. $

	END OF			% change Dec. 1938-Dec. 1941	% change Dec. 1941-Sept. 1944
	Dec. 1918	Dec. 1941	Sept. 1944		
Mexico ...	29	47	220	+ 62	+ 368
Brazil ...	32	70	(a) 297	+119	(a)+324
Latin America ...	706	722	*2,000	+ 2	+ 177
Argentine ...	431	354	(b) 939	-18	(b)+ 165
Spain ...	(c) 525	42	(d) 104	...	(d)+ 149
Turkey ...	29	92	(a) 221	+ 217	(a)+ 140
Venezuela ...	52	51	110	-1	+ 116
Union of South Africa ...	220	367	(e) 778	+ 67	(c) + 112
Sweden ...	321	223	454	-31	+ 104
Roumania ...	133	183	(d) 369	+ 38	(d)+ 102
Switzerland ...	701	665	1,033	-5	+ 55
Peru	20	21	32	+ 4	+ 52
Uruguay ...	68	100	148	+ 47	+ 48
United Kingdom (1)	2,690	1	1	...	...
Belgium (1) ...	728	734	734	+ 1	±0
Germany ...	45	40	(b) 40	- 11	(b) ±0
France (1) ...	2,430	2,000	(d) 2,000	- 18	(d) ±0
U. S. A. (1) ...	14,512	22,737	20,823	+ 57	-9
Netherlands ...	998	575	(e) 500	-42	(c)-13
World excl. U.S.S.R	*25,200	*29,900	*30,600	+ 19	+ 2

(a) July 1944 (b) December 1943 (c) April 1938 (d) June 1944

(1) Not including gold held in the Exchange Equalization and similar funds :

	Dec. 1938	Dec. 1941	June 1944
United States	80	25	31
Belgium	44	17	...
France	331	...	...
United Kingdom	(f) 759	(g) 151	...

(f) September 1938. (g) September 1, 1941.

The largest absolute gains (in millions of U. S. $'s) in the latter period are reported by the Argentine (585), the Union of South Africa (411), Switzerland (368), Sweden (231), Brazil (227), Roumania (186), Mexico (173) and Turkey (129). These eight countries taken together added over $2,300 million to their central gold reserves or some $400 more than the simultaneous decline in the United States holdings of monetary gold. Substantial relative gains ranging between approximately 50% and 150% were reported also by Spain, Venezuela, Peru and Uruguay. The reduction in the recorded gold reserve of the Netherlands from $575 million to $ 500 millions, on the other hand, represented a somewhat greater relative decline (-13%) than that reported for the United States (-9%).

It is understood that the Rubber Production Bonus Scheme which has expired on June 30 this year, will not be renewed. Instead, the Government of India will pay, until further notice, fixed prices for *Hevea* rubber based on a price of Re. 1 per lb. for Group 1 rubber delivered to the Government Godown, Cochin.

This will provide producers with a substantially higher return than has been averaged over the period of the Bonus Scheme and it is hoped will stimulate the maximum possible production of crude rubber, which is still most critically needed.

ECONOMIC LITERATURE

Book Reviews

GENERAL EQUILIBRIUM THEORY IN INTERNATIONAL TRADE, by Jacob L. Mosak. Published by The Principia Press, Inc., Bloomington, Indiana, 1944, Pp. 187. Price $ 2'50.

This elegant study was presented as a doctoral dissertation by the author at the University of Chicago in 1941. As a book it is now divided into two parts, the first dealing with Static-Equilibrium Theory in International Trade and the second with Intertemporal Equilibrium Theory in International Trade. There are five chapters in the first part devoted respectively to the problems of Equilibrium of exchange for an Individual, Equilibrium of Exchange in a Closed Economy. Equilibrium of Exchange in an International Economy, Special cases of Two Commodities and Two Countries and the General Equilibrium of Production in International Trade.

The book is a tough reading for students of the general theory of value and is meant only for those who are well initiated in the mathematical methods of working out economic problems.

To those who understand the book it will prove the superiority of the mathematical method over the verbal as a technique of working out fully and rigorously the intricate problems of value.

Till recently there were two distinct theories of value, one applicable to a closed economy (domestic trade) and the other to international trading. The developments which have taken place in recent years in the theory of value for a closed economy have however made it possible for us to extend it to cases of inter-relations between markets. The book is an attempt to bridge the gap that has existed between the general theory of value for a closed economy and the theory of international trade. The attempt is highly successful.

The theory of value for a closed economy (of the neoclassical writers) is essentially a partial equilibrium theory inasmuch as it proceeds on the basis of all other prices remaining fixed while determining the price of one given commodity. The theory of international trade is however a general equilibrium theory even with the Marshallian group. But the problems are over-simplified there by taking only two commodities and two countries into consideration. This simplification enabled the economists to treat the problems by the graphic (geometrical) method though it failed to bring to clear light the full working of the economic system.

The domestic trade theory of value as developed by the mathematical school however made it convenient to formulate a theory that may be applicable to closed and open economics alike. (In this connection the names of Harold Hotelling, J. Hicks and T. O. Yetema must be mentioned). The author has completed the work in the mathematical field by using a technique which can be applied to all cases of exchange under all conditions.

It is difficult to review a book of this nature ; for no one who does not read it for himself can appreciate its merit. But from the few comments that follow one will get some idea of the importance of the book.

Mr. Mosak starts with the problem of equilibrium of exchange for an Individual. From the beginning he makes his treatment most general. And it must be noted that it is possible to make one's analysis general only by using mathematical expressions, that is, by making use of equations and calculus. It is only when economic relationships are thus expressed in the most general fashion that it is possible to give them a fundamental character. All general and fundamental statements have universal applicability so that a general theory of value (that is truly general) is applicable to cases of closed economy and international trade alike.

One of the things that is needed is to use the price ratios instead of the absolute token prices; for by so doing it is possible to extend the general theory of value in closed economy to problems of international trade. The device of using price ratios brings, as it were, the comparative cost doctrine into conformity with the general principles of value. It makes one realise how all exchanges are essentially alike and how all costs are in reality comparative. In a closed economy, as equations on pages 36 and 37 show, prices of all commodities in terms of a numeraire are determinable; the price of the numeraire being itself assumed to be unity. To determine the price of the numeraire—which simply means its price in terms of something else; the price of a thing in its own terms is of course unity—or, what comes to the same thing, to determine the absolute prices of things rather than relative (subject to the statement already made that in reality there is no absolute price) we require another equation in terms of the quantity of money. It is here that the importance of the quantity theory of money or its place in the general theory of value comes to light.

The money price of the numeraire does not equilibrate the demand and supply for money since these are assumed to be identical. This is true when money is a token and has no utility of its own.

When the value theory is thus stated in terms of relative prices—when utility is replaced by marginal rate of substitution—it lends itself directly for application to the problems of international trade. Mathematically the problems can be solved when there are as many independent equations as there are unknowns. And the author, starting with fundamental propositions that form the basis of equations, shows how in each case the problem is determinate.

Once the general framework has been constructed, Mr. Mosak goes on to tackle problems of impediments to trade such as import and export duties when the tax proceeds are spent on all commodities, on the taxed commodity and on the numeraire or again when the tax proceeds are redistributed.

In the fourth chapter the special case of two commodities and two countries is taken up. It is worked out by means of equations as also by means of geometrical figures. In the latter case two kinds of diagrams are used ; first the familiar supply and demand curves (Viner's technique) and then the reciprocal demand curves (Marshall's technique). It must be mentioned that when there are two commodities and only two countries it is much easier to work out the problem by means of curves. Being a graphic method it is easier to understand and simpler to mani-

pulate. But it has, as already mentioned, a serious drawback in that it does not show the full working of the economic system.

In the second part of the book the problems of intertemporal Equilibrium are taken up. Here we approach reality more closely. Changes in prices, interest and such other data make the economic system dynamic. The knowledge of actual and expected changes introduce a new factor in mathematical technique. We have now to re-word our general theory in terms of expectations, which though they may themselves be changing are at any given moment of time constant. Following Hicks the problems are worked out for different elasticities of expectations. It is in a dynamic economy that the problem of planning arises. The first two chapters in this second part are devoted to Individual Consumer Planning and Entrepreneurial Planning. In the next two chapters the problems of Market Equilibrium in a Closed Economy and in an International Economy are solved.

Mathematical treatment of economic problems has one great disadvantage ; it makes, sometimes, simple things difficult just as it often makes difficult things simple. Take for instance one small equation from page 165.

$$p^{(1)}_{rt} = e_{1i.t} p^{(i)}_{rt}$$

where the superscript indicates the country, and where e_{1it} is the expected number of units of currency i which one must give for one unit of currency1 in period t. The suffixes and superscripts make the equation too concentrated for many easily to digest. Yet, mathematical treatment is indispensable for the solution of most of the intricate problems of theory.

In the ninth chapter some interesting problems come up for discussion. It is there mentioned, for instance, that money plays its peculiar part only in dynamic economy. In static economy money is a mere counter bearing a fixed relationship to the value of one's income. In dynamic economy it is a store of value with its own demand and supply functions. This, in the case of dynamic economy equilibrium conditions do not necessarily require that there should be no transfer of money from one market to another.

We have remarked already that the classical treatment of the problems of international trade was often oversimplified. Thus in classical theory it was generally assumed that capital movements implied a reduction in the lending country's demand for goods by the amount of the money lent. In reality however an autonomous increase in capital exports is likely to represent an increase in the demand for foreign securities in terms of money rather than in terms of commodities. "The direct effect of the capital exports is therefore likely to be limited to the markets for securities—*i.e.*, domestic interest rates are likely to rise."

Likewise it can be shown that the belief that since the value of exports must be equal to the value of imports, any reduction in the value of a country's imports would necessarily lead to an equivalent decrease in the value of its exports, is not altogether correct. "This analysis now appears oversimplified. Import restrictions do have a direct inflationary effect on the country that imposes them even though they have a deflationary effect on the rest of the world."

The book is a difficult reading but for those who can follow the mathematical technique it is interesting and instructive. It should prove of much use to students of mathematical economics. We are indebted to Mr. Mosak for the production of such a valuable book.

J. K. MEHTA

RECONSTRUCTION OF ECONOMIC SCIENCE, by A. N. Agarwala. Published by Kitab Mahal, Allahabad. 1945. Pp. 142. Price Rs. 3-8 as.

It requires a good deal of courage to write books on the pure theory of economics. In undertaking a task no less comprehensive than the reconstruction of economics Mr Agarwala has shown that he possesses this courage in abundance. The book may be stated to contain the reactions of a student of economics brought up on the Marshallian tradition of welfare economics to the stimulus of the Robbinsian revolt against welfare economics. An alternative title of the book might be : A Dissection of Robbinsian Economics :—for chapter after chapter contains little else—except incidentally here and there—than a refutation of these doctrines.

Robbins has had quite an array of critics and some of them were certainly right. But one wonders if poor Robbins is so hopelessly in the wrong as is made out here. Robbins is wrong in distinguishing between economic activity and the economic aspect of activity ; Robbins is wrong in insisting that economic calculation can exist apart from the measuring rod of money ; Robbins is wrong in claiming adolescence for economics ; Robbins is wrong in overthrowing welfare pre-occupations from the purview of economic studies ; Robbins is wrong in the belief that economic evaluation can be germane even to the life of an isolated individual ; Robbins is wrong in attempting to confine economics within the limits of a positive science ; Robbins represents an out-of-date opinion which has lost all fascination to the present generation ! It seems a little overdone, doesn't it ?

On the positive side Mr. Agarwala thinks that economics should not only describe but also suggest ideals and norms and issue precepts ; study not only "what is" but also lay down "what ought to be." Then the question would arise as to whose norms should be accepted. He answers that other social sciences like politics and ethics also should put forth their normatives and ways and means. "It would then be their task to fashion and develop a sociological normatism." There should be, in other words, a synthesis of social studies ; but, then, how is that a reconstruction of *Economics* ? It then is certainly much more than that.

Secondly, how are we to determine the norms with reference to which we should select our social norms if we remember that

"Ten men love what I hate,
Shun what I follow, slight what I receive,
Ten, who in ears and eyes
Match me : we all surmise,
They, this thing, and I, that : whom
Shall my soul believe ?"

Mr. Agarwala has an answer even for this. We should do away with all love for individualism in which the individual is everything and society nothing. This view of life, he thinks, has proved practically unworkable. We should all accept a gospel of supra-individual universalism in which the individual would occupy a derivative and secondary place. Talking of universalism, while an international society is the ultimate end, immediately we should regard patriotism and *national* welfare as the only worthy ideals. "What is good for the country is good, the truth. What is bad for the country is bad, the untruth "!

This is quite an easy way of disposing of the distinction between truth and untruth. Many totalitarians—the fascists particularly have familiarised us with this way of thought. Robbins is a democrat. He may be wrong. But he does not swear by society—which means as interpreted here, my nation, right or wrong. We know enough history to realise that that way lies disaster and wilderness. From his standpoint Robbins is perhaps as much right as those who swear by a supra-individual universalism—or whatever is the new fangled name for the greed and superstitions of the crowd that calls itself Society with a capital S. Mr. Agarwala belongs to a different persuasion—but granted his own philosophical norms of life Robbins too *is* right. And in the ultimate—when we shall all be dead—who knows who would be right!

P. S. NARAYAN PRASAD

ECONOMIC POLICY AND PROGRAMME FOR POST-WAR INDIA, by Nalini Ranjan Sarkar, Published by the Author. 237, Lower Circular Road, Calcutta. 1945. Pp. 121. Price Rs. 2-8 as.

This book is the outcome of the Banaili Readership lectures delivered by the author at the Patna University in 1944-45. In the very first chapter of the book, the author strikes the right key-note of his theme when he states that the demand for social security, full employment and an adequate standard of living for all has become so powerful, so universal and so insistent as to have succeeded in rousing the moral conscience of the ruling classes in all lands and that the requirements of the solution of that fundamental economic problem must unquestionably have precedence and predominance over all other emergent problems of the post-war period. That is so, no doubt. But, an equally important question is, what is to be the method or the procedure of planning? Should it be on capitalistic or socialistic lines? The author's answer is that he would not indiscriminately adhere to any of the traditional ideologies or dogmas but would just make a "commonsense attempt" to improve the average well-being. This is obviously a very vague and very indefinite expression of opinion and would look very much like an attempt on his part to evade the responsibility for making up his mind on the question of the degree of fundamental change in the set-up of the economic society that he would consider essential. But, the author is too well-informed a person and too clear and vigorous a thinker not to realize that, however unpleasant the prospect, there is no avoiding great and fundamental changes in the operating mechanism of the economic society. On the contrary, towards the very end of the book (Chapter IX—Distribution

and State Control), he exposes the dangerous limitations and inadequacy of *laissez-faire* in no uncertain terms or faltering language. "But to be candid, I am not one of those who feel that the doctrine of *laissez-faire* is practicable or desirable under present conditions. The cost and character of the competitive struggle itself, the tendency of wealth to be concentrated in a few hands, the appalling poverty in the midst of plenty—all these are beyond the cure of *laissez-faire* economy." (P. 104). But he is not in love with totalitarian planning either. "It is not indispensable that planning and totalitarianism should go together, as in Germany and Soviet Russia. On the contrary, the pattern of planned economy which we contemplate should give full play to individual liberty and democratic control."

This is the so-called path of the golden mean, which would attempt to effect a perfect reconciliation between extremes, make a judicious combination between free enterprise and State control, and institute a delicate system of checks and balances. The idea is undoubtedly a pleasant and comfortable one, and a soothing one, too. But, the big question mark is, will it work in practice or will it be just another of those illogical and inconsistent ideals with the wreckage of which the onward march of history is strewn wide and thick ? The future alone, say, fifty years hence, can give a full and final answer to the question. Our author is, however, in very distinguished company of official and non-official planners (*e.g.*, the Government of India, Bombay Planners and the authors of the People's Plan) when he limits his horizon to the first five or ten years and examines what are the minimum changes that would be necessary in this period. Considering all things, it is perhaps prudent for our planners to take a short-range view, because, in the present political and socio-economic conditions of India, much preparatory and exploratory work remains to be done and much clarification of issues has to be achieved before we can even begin to take a comprehensive view of economic planning as a whole. Consequently, the first ten years, at any rate, must be a period of experiments, of tentative and provisional reforms, and of application of diverse methods in different sectors of economic life. Even so, the minimum of reforms recognised by the author as absolutely necessary would mean a drastic overhauling of the operative mechanism of society. Thus, he would, for instance, establish a national minimum of wages for labour, including agricultural labour, stabilize the prices of agricultural produce with the help of buffer stocks, reduce inequalities of income to an appreciable extent through a judicious manipulation of the machinery of taxation and public expenditure, nationalize monopolistic industries, and control those industries, which, though not necessarily monopolistic, are affected by direct, immediate and important public interest. As to the methods of control over this second category of industry, he would fix prices, limit dividends, guarantee quality and supply, prescribe conditions of work and wages for labour, and institute a system of licensing and 'efficiency auditing'. It is obvious that these methods of control, if effectively employed, will go a long way in curbing the excesses and eccentricities of private enterprise and harnessing its great powers to the service of public welfare. In the third category would be those industries, and their number is bound to be very large, which should be left to private enterprise, subject to general regulation in respect of conditions of labour, protection of the consumer against extortion and fraud, and prevention of the mis-direction of investment. These suggestions are, doubtless, in line with those well-

conceived ideas which are steadily crystallizing into the very structure and substance of contemporary economic thought in India and abroad.

The remaining sections of the book are concerned with a careful survey of the requirements of planning and the available resources, the development of agriculture, industry and transport, financial bases of the Plan, and Currency, Exchange and Trade. The chapters are replete with many valuable suggestions on all these questions. But we can take up here only a few of the more important among them. As regards agricultural development, he suggests that, first of all, the Permanent Settlement and the zemindary system should be replaced by the ryotwari system, and then, a system of co-operative farming should be instituted throughout the country. We are, however, constrained to think that a mere 'replacement of the zemindary system by one of peasant proprietorship will not even touch the fringe of the problem in hand. Though the ryotwari system has been prevalent for a century over the greater part of India, can we say that the condition of the peasants in those areas is any better than that in, say, Bengal? Land is the most valuable and at the same time most scarce among the essential factors of production, and its optimum utilization would demand a much more active and intimate control by the State than would be implied by the rather superficial reforms in land tenure as suggested by the present author as well as by other reformers like the Floud Commission. We believe that the problem cannot be solved by anything less than nationalization of land in the fullest sense of the term plus an active management of agriculture by the State in predominant partnership with the actual cultivators, who are to be endowed with 'hereditary and transferable' rights in land, subject to their carrying out the direction of the State regarding collective farming and payment of income-tax in lieu of land revenue assessed on the collective farm and of other charges of the nature of interest on capital that may be sunk by the State in irrigation and drainage works, etc.

Turning to Industry, the author very rightly lays stress on the interdependence and complimentarity of industry and agriculture and on the necessity of developing both side by side. Secondly, since there would at first be a limited supply of capital and technical skill, an order of priorities would have to be drawn up, and the author would give the first preference to consumer goods industries and power, and as far as possible, to such basic industries as cement, chemical manure, small machines and machine tools, and would, later on, turn to what are called capital goods industries in the proper sense of the term. In this matter of priorities, therefore, his views diverge substantially from those of the Bombay Planners and the Planning Department of the Government of India. His case seems to rest upon three arguments: this order of development would impose less sacrifice on the common people and raise their standard of living at an early date; second, this would create a larger volume of employment in the immediate post-war period, when the cessation of military expenditure and the demobilisation of the army are likely to create a vast gap in employment and depress the national income; and third, as defence would be a joint affair of the British Commonwealth, India would not need to accord an over-riding precedence to defence industries. There is undoubtedly much force in these arguments. But, need there be any necessary incompatibility between these two groups of industries even in this first stage

of development? On the contrary, is not there the same interdependence and complimentarity between them as between industry and agriculture? We suggest that it is desirable and also quite possible to develop both types of industries side by side as an integrated and balanced whole. While we are thus unable to agree with the author on the question of priorities, we would admit that, in the first stage, we would be dependent to an appreciable extent on certain types of capital goods. But that is a rather different matter. What is important to emphasise is that India can and must develop the highest types of capital goods industries in order to have an all-round and integrated industrial structure, and that they must be started at the earliest stage of planned economic development. As ragards protection and tariffs, the author rightly warns us against the widely held view that foreign competition in respect of consumption goods and capital goods is likely to be absent or weak in the immediate post-war period, because the western nations will be wholly busy with reconstruction and rehabilitation, and re-stocking on a large scale. As he points out, England's very financial solvencywould call for an intensive export drive and the U. S. A. would require an expansive market for her giant-sized industries. Consequently, India must equip herself with the necessary defensive armoury in the shape of tariffs, subsidies and other forms of State aid. It is also refreshing to find the author stressing the limitations and even dangers of protection and urging the necessity of paying equal attention to other complementary factors such as supply of capital, and development of scientific research, transport, education and public health.

Regarding the financial bases of planning, the author estimates that, in the first five years, central revenues can be expanded by something like Rs.600 crores and that a large volume of liquid capital can be massed together by paying increasing attention to institutional savings such as those mobilised by life insurance and building societies, investment trusts, co-operative societies, and so on. As to currency, exchange and trade, the author suggests that it would be to the interest of India for her to try to reconcile the requirements of national economic planning with those of an international economic order and that, subject to proper safeguards, she should co-operate with other nations in respect of the International Monetary Fund, International Bank, and also regulation of international competition.

In Chapter X, called Hindrances to Planning, the author is quite emphatic in saying that no economic planning would be possible without the establishment of a national government in the full sense of the term, that large powers of initiative, direction and control must be vested in the Central Government *vis-a-vis* the Provincial and State Governments, and that there should be instituted in this country what has been aptly called an Economic Civil Service.

It now remains for us to say that the present book represents, in many ways, the best possible attempt to bring about a synthesis between the conflicting ideologies and proposals that have been so far put forth in the matter of economic planning. It takes a comprehensive dynamic and impartial view of this all-embracing problem and deals with its different sectors in a severely practical and commonsense spirit. The book is well printed

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and it has an excellent get-up. We can confidently recommend this valuable book to that increasing circle of thoughtful and responsible persons who are being more and more interested in this important subject.

H. L. DEY

LABOUR AND FACTORY LEGISLATION IN INDIA, by H. M. Trivedi. Published by Messrs N. M. Tripathi, Ltd., Law Publishers, Bombay, 1945. Pp. 1,303. Price Rs. 15 nett.

Literature on Indian labour is still scanty, so much so that there was not yet in existence a compilation of all the laws governing labour and cognate subjects. This deficiency has now been sought to be removed by Mr. Trivedi and we congratulate him on bringing out this comprehensive and useful work of reference.

In the first 900 pages, the author reproduces the labour Acts of the Government of India and Bombay Government which were passed before the outbreak of the present war. The next 300 pages are occupied by the Acts, Ordinances etc., passed since then by the Government of India, which have been reproduced in full. There is a forty-page index at the end, which is very useful. In a short "Introduction" the author gives a very brief summary of the main laws as also of the Beveridge Report which seems to have been rather thrust in.

While the book is extremely useful even as it is, we have no doubt that its value would have considerably increased had the author also discussed the economic implications of at least the more important provisions of the various Acts and explained the various sections and commented upon them. A brief discussion of the cases decided would have been of great use. He could as well have included in it at least the important labour laws passed by the various Provinces, and even by the Indian States.

The title of the book suggests that it contains all the labour legislation relating to labour and factory. But it as a matter of fact omits several important Acts governing labour. *e. g.* Discipline of Seamen Ordinance of 1943, Motor Vehicles (Drivers) Act of 1942, Tea District Emigrant Labour Act of 1932, relevant sections of the Indian Railways Act, Indian Merchant and Shipping Act, Indian Ports Act, Land Acquisition (Amendment) Act of 1933, and so forth. Neither does the book give all the labour Acts passed before the commencement of this war nor does it furnish all the labour Acts after that date.

The term "Legislation" is, moreover wider than the term "Laws", and seems to suggest that the author has done more than merely reproducing the various Acts. The correct title of the book should have been "*Some Important Factory and Labour Laws in India*".

A book dealing with labour laws, or in fact any laws, runs the risk of becoming out of date soon after its publication. It may, therefore, become misleading to the unwary unless it conspicuously mentions the time by

which it has been up-to-dated. It is not possible to find from this book, even at some pains, the time-limits of survey. The book has been published in 1945, but many of the amendments etc. passed in 1945 are not available in it. To give only a few examples, the Mines Maternity Benefit (Amendment) Act of 1945 has made special provisions for women employed underground while the rate of benefit has been generally raised from 8 as. to 12 as. per day. These are not incorporated in this book. Similarly, the War Injuries (Amendment) Ordinance of 1945 has modified the definition of "War Injury" as given in the Act of 1941 by including in it physical injury "caused by any explosion or fire which involves any explosives or munitions or other dangerous things required for war purposes and which happens or is caused by, through or in connection with the manufacture, storage or transportation of any such explosives, munitions or other dangerous things" This amendment does not appear in this book. Likewise clause 21 of the War Injuries Compensation Insurance Scheme has been amended in regard to the submission of details of insurance by contractors which do not figure in the work under review. Examples like this may be multiplied but the ones given above are sufficient to show that a reference to this work by one not knowing up to what stage it has been completed, would be extremely misleading This is a great drawback of this book, though it is merely a matter of slight neglect on the part of the author.

This book, moreover, has what a law book should not have—a number of proof mistakes which are extremely misleading and irritating. For instance, on page 1132, Rule 81A (d) and 81A (ii) are full of so many printer's devils that it is impossible to make any sense out of them! Without reference to the official *Gazette* itself or some other more reliable publication, it is not always possible to be sure as to what the law really is.

Credit is nevertheless due to Mr Trivedi for compiling the labour laws for the first time in this country and, within the limits set by the author, he has done it systematically and industriously. It is a highly useful work of reference which is destined to become popular with labour economists and factory managers. We recommend it strongly to our readers.

A. N. AGARWALA

FEDERATING INDIA, by D. R. Gadgil. Published by Gokhale Institute of Political Science, Poona. 1945. pp. 107. Price Rs. 6.

In this publication Mr. D. R Gadgil, Director of the Gokhale Institute of Politics and Economics, examines what is generally called the communal problem with his usual clearness of thought and expression and comes to the conclusion that separation of Muslim India from Hindu India is, under the existing circumstances, the less unsatisfactory method of ending 'deadlock politics'. The conclusion is based on premises which cannot be lightly dismissed. He is of the opinion that the mutual distrust between the Hindus and Muslims has gone too far to admit of any other solution. He disposes of the objection against separation based on the assumption that the Muslims in this country are mostly converts from

the indigenous elements by positing that only satisfactory definition of a nation is a people who feel that they are a nation. He also regards the arguments against separation based on historical, geographical and economic ground as invalid. Historically, according to him, India as a whole was never a political community or national entity before the advent of the British. From the geographical standpoint there is much better case, in Mr. Gadgil's opinion for Scandinavia, the Iberian Peninsula and Ireland to be regarded as a political unit than for India. Mr. Gadgil concedes that India would be b tter off economically if she retains her political unity but this argument cannot prevail against a distinct preference for entirely separate political existence of the Muslims. The Muslims are entitled, if they so choose, to be poor rather than run the risk of being dominated by the Hindu majority. Economically it is clear that the world would be better off by setting up a World Government and materially restricting national sovereignties. But it is also clear that the chance of such an authority being established is almost as remote as ever in spite of the lessons of experience during the war and irrefutable logic of thinkers like H. G. Wells and many other internationally minded prophets of the future. The conclusion of course follows that if the Muslims want to have their 'homelands' sovereign states in the North-West and the East of India—they should have them. They are justified in having this claim conceded to them on the basis of self-determination.

The separate Muslim States would not, in Mr. Gadgil's scheme include Eastern Punjab, Western Bengal or Assam except Sylhet because in these areas Hindus are in majority, and in fairness cannot be coerced to be included in the Muslim blocks ; and the Sikhs should be free to throw in their lot with the Hindus or the Muslims according to their free choice. Mr. Gadgil is not for appeasing Muslims any further. He is prepared to give them what they are entitled on the population basis—*i. e.* the areas in which they are in majority, but no more. He would not endorse communists' view that the Hindus should not only concede such areas to the Muslims but also others which are needed by them for rounding off their own territory or giving them a satifactory economic base.

After India has been partitioned on this basis, Mr. Gadgil expects that by mutual agreement the minority problem, and the problem of communications, trade, defence etc. could be settled and international guarantees invoked, if necessary, for safeguarding the position of the Hindu and Muslim minorities in the Muslim and Hindu India respectively. The solution of these problems would, in his opinion, become easier if peaceful partition of the country is brought about.

Mr. Gadgil's treatment of the position of the States is the weakest part of his argument. He envisages a number of alternatives but the one which is likely to materialize is his first *i. e.*, the Indian States might remain in the position as before *i. e.*, in their present relation with the British and paramountcy remaining paramount. It is hard to believe that Hyderabad, Bhopal and Rampur would join the Hindu Federation or any of the numerous Hindu States of the Punjab join the Muslim Federation. There would be in effect not two but three Federations—the third being divided into nearly 600 separate political units all under the suzerainty of the British and in a position to bar our progress at the bidding of the Paramount Power. At present their political position varies owing to historical reason, but in the new set-up they are all sure

to claim semi-sovereign position and the latter will be at the disposal of the British as a bargaining counter to negate, limit or distort India's freedom according to their interest, inclination or needs of political strategy. The prospect of India divided into three federations—the third being really a loose confederation under the absolute control of the British, would fill even Mr. Gadgil's otherwise imperturbable mind with dismay regarding India's future.

The Indian States are, to use Mr. Amery's well-worn phrase, an important element in our national life. And their treaties, sanads and engagements are, as we have been told times out of number, to be held as inviolate and inviolable, except through the exercise of the undefined and indefinable paramountcy. They have not been much in the political picture during the war because 'the inability of the Indian leaders to agree' has been found a perfectly satisfactory excuse for the stand-still position of Mr. Amery from August 1942 to June 1945. But if by any chance the Indian leaders see the light and come to an agreement, there is, to use Mahatma Gandhi's words, the last arrow in the British quiver which they will use ingeneously and successfully to kill the cause of Indian freedom. The States are being held in reserve as a political weapon, but will come in handy as a very good V to blast our future whether we form one federation or two. Their anachronistic position makes it inevitable that the Princes should lend themselves to be used.

This is, in my opinion, a conclusive point against Mr. Gadgil's assumption that once the major political parties agree to separate on a friendly basis, the rest will be a smooth sailing and we will be free to shape our own future. Mr. Gadgil assumes that the British will have to fulfil their pledge to withdraw once our own disunity has been resolved by the creation of Pakistan. This is an illusion. The way to freedom does not lie through separation. That is the way to the perpetuation of the British rule in India. The British know it and hence their oft-repeated declaration that they stand by the Cripps Offer. They mean to hold what is theirs, and they will whether India is one federation or two so long as the Indian States are theirs as they are and will be under Mr. Gadgil's scheme until we have the strength to be free or the British political scene changes beyond recognition.

In spite of the fact that I cannot see my way to accept Mr. Gadgil's conclusion, I regard his "Federating India" as a very valuable contribution to the discussion of this fundamental problem of our national life. It is dispassionate, objective, factual and balanced and therefore well-worth reading.

GYAN CHAND

RECONCILIATION : WHY AND HOW, by C. Rajagopalachari. Published by Hind Kitabs, Bombay. 1945. Pp. 40. Price 14as.

Mr. Rajagopalachari is a realist with a penetrating vision and keen insight. Even on the pain of being misunderstood in his own camp he has not fought shy of freely and frankly advocating his point of view to end the political deadlock in India. His numerous efforts in this regard are too plain to mention.

In this brochure the learned statesman has made a passionate appeal to the nation as well as to the British masters and even to the allied nations, to resolve this impasse Fortunately since the publication of this pamphlet the members of the Congress Working Committee have been released and the Wavell Plan is before the nation. There is thus a silver line in the otherwise dark clouds

While criticising the British imperialist policy the author has not spared the Congress for her "demonstrable mistakes." His soul is agonised at the moral and material degradation he sees all around, and he is anxious that the machinery which is jammed must be made to move and the parliamentary governments must function. He rightly believes that control is another name for favouritism and that no post-war planning can be possible without a national government.

In the last section tho author has put forth alternative schemes to carry on the interim government and has, inter alia, discussed some of the recommendations of the Sapru Committee.

We strongly commend the book to the general reader.

K. L. G.

AN ECONOMIST LOOKS AT PAKISTAN, by Radha Kamal Mukerji. Published by Hind Kitabs, Bombay. 1944. Pp. 39. Price Re. 1-8as.

Dr. Radha Kamal Mukerjee shows in this booklet that the real problem of India is its appalling poverty and not religion; and it is in this light that he treats the thorny problem of Pakistan. The existence of communal differences he does not deny: indeed he admits without hesitation that though time is a great healer and though common sufferings and aspirations have created a common feeling among various communities in India, bitter memories have not been entirely effaced. And with "our increasing population, poverty and misery have become our great curses, embittering the relations between the various peoples and communities that have formerly lived together in harmony."

Differences of religion cannot however be a basis for separation. More so in a country like India where religious groups are so numerously balanced and where economic and social relations are so interwoven. Thus, in the Punjab there are no less than 17 districts where Hindus represent more than 50% of the population as against 18 Muslim districts. Besides, there are the sturdy Sikhs concentrated in the Central Punjab. Similarly in Bengal there are 13 Hindu districts as against the Muslim. 16. Under the circumstances, contends Dr. Mukerjee, it is quite illogical for any community to claim the whole of the Punjab or Bengal as *its* homeland. How can Hindu and Sikh homelands be claimed by the Muslims in the name of Muslim regional self-determination so as to support and nourish north-western Pakistan? Similarly Muslim autonomy in eastern Bengal is entirely inconsistent with the Muslim claim to Assam. These facts establish it beyond a shadow of doubt that any territorial separation is bound to create more difficult political and social problems in the future than those it seeks to solve. In the absence of mutual understanding the problems will still remain; maybe, it will

take a more acute turn. The solution of our difficulties thus does not lie in separation but in some sort of Minority treaties and agreements covering all causes of communal tension.

The author also considers the Coupland scheme of agricultural regionalism which is supposed to be based on economic considerations. But Coupland has fallen into the grievous error of identifying "regional divisions based on economic principles with the political demarcation of Muslim homelands." Hence instead of providing for co-operation between the provinces with identical interests, he separates the delta from the valley in an agricultural planning!

The book opens with a discussion of the principles of nationality and of history as applied to India and then passes on to the consideration of the position of the Sikhs in the proposed scheme of Pakistan. The author then exposes the fallacy underlying the Coupland's proposals and contends that the only true basis of regionalism is linguistic. He next examines threadbare the population-structure of Pakistan with the help of statistics and makes it clear that separation will not solve the problem. He also examines the economic possibilities of Pakistan and finds that it is so deficient in industrial potential that separation will only mean the economic backwardness of the separated areas and consequently the poverty of the masses. Hence he comes to the conclusion that Pakistan of Mr. Jinnah's conception is not only unfair, and economically backward but also that it is a positive danger to future political, economic and social progress. To drive this point home he has furnished the booklet with many valuable maps and tables.

The author exposes once for all the hollowness of the economic base of Pakistan. To eradicate poverty and unemployment of the masses unitary and centralised control is to him indispensable. On this depends the future of India.

The book deserves careful study by all those interested in this burning problem of the day.

N. N. AGARWAL

AN ESSAY ON GANDHIAN ECONOMICS, by J. J. Anjaria. Published by Vora & Co. Publishers, Ltd., Bombay 2. 1945, Pp. 40. Price Re. 1-4as.

There was a time perhaps when professional economists could afford to neglect and refuse to recognise what is now popularly known as Gandhian Economics. With the publication of the Gandhian Plan by Mr. Sriman Narain Agarwal, however, the Gandhian creed in economics has directly entered the arena of post-war planning ideologies and now it is increasingly challenging the attention of the experts and of the general public.

It is certainly commendable on the part of Mr. Anjaria that at such a time an economist of his calibre should have come forward with 'An Essay on Gandhian Economics.' In the past, whenever we came across any such treatment of the Gandhian contribution in the sphere of economics, it was invariably in the nature of sheer propaganda, either

favourable or unfavourable to Gandhi Ji. Here, however, for once we find a genuine attempt on the part of a well-known economist to understand and interpret Gandhian point of view as impartially as should be expected of an authority of the reputation of Mr. Anjaria. In a brief space the author has tried to cover quite a large ground. In the course of eight brief chapters and a Post Script he has drawn light on the varied aspects of the Gandhian philosophy and its economic programme. And if Mr. Anjaria has not been able to arrive at any sensational or revolutionary conclusions regarding Gandhian philosophy, it is not perhaps his fault or prejudice. In fact, if one is permitted to say so, there is hardly anything revolutionary in the Gandhian economic programme. In my opinion, Gandhi Ji's economics is essentially a part of his politics of compromise, which was absolutely necessary, as we know, in the particular contemporary context of Indian political struggle. It can readily be admitted that there is hardly another person in this country who has grasped the real and basic nature of the Indian political scene as thoroughly as Gandhi Ji has done, and it is as a result of realisation of that basic reality that Gandhian politics, economics, ethics and religion were born. If one studies intimately any one of these he will find compromise as an essential element in the synthesis of each of them. In fact, Gandhi Ji is himself the symbol of a great compromise. While fighting for unqualified independence, he alone can afford to be a friend of the British and a voluntary adviser to imperial representatives in India. What we need to know is that such a compromise was absolutely necessary if any unity out of the existing diversity was desired in order to bring about the political salvation of the country. Therefore, in my opinion, it will be in the nature of a fundamental error to make an attempt to interpret any part of the Gandhian contribution to any sphere of thought or action torn out of its political context.

Mr. Anjaria's contribution, I am sure, will pave the way for further studies in this direction. Frankly speaking, the choice of a small booklet to present Gandhian economics was rather unfortunate. The limitation of space in this case was perhaps the greatest handicap in a thorough and more comprehensive treatment of the subject.

R. P. BAHADUR

BANKERS' ADVANCES AGAINST GOODS, by D. S. Sastri. Published by Messrs. Thacker & Co., Bombay. 1944. Pp. 310. Price Rs. 12-8 as.

A large number of books has been published during the last decade and a half bearing on the various aspects of Indian banking and currency; but there is hardly any exhaustive and comprehensive work which deals with the practical aspects of Indian banking. This lacuna is attributable to the unfortunate fact that there is no close link between those who teach banking as a subject and those who follow it as a business. In particular it has been unfortunate that no attention has yet been devoted by professional economists to the systems on which Indian banks advance loans against goods, not only because this form of advance is the most important but also because the Indian banks have developed some new methods to suit the Indian conditions and there is great scope for further improvements in this direction. Mr. Sastri's book under review tries to

remove this gap in our banking literature in a creditable manner and is warmly welcome.

The treatment of the subject by Mr. Sastri is at once methodical, clear, lucid and dependable. He first discusses certain general conditions relating to goods accepted as security by banks and then considers the legal position relating thereto. He proceeds to study in detail produce under pledge, produce under hypothecation, manufactured goods, documents of titles to goods and no less than 40 commodities specifically, from this angle. He also considers how banks safeguard the security and gives particular attention to the role of insurance in this regard.

Mr. Sastri deals with the various aspects as described above with great competence and firsthand knowledge, though his treatment could have been more analytical and critical. We wish he had examined the defects of the present methods of advancing against goods in greater detail and offered his own constructive suggestions. Nor does he study this method of banker's advances in relation to other types of advances or try to give an idea of the importance of the former in the total loan operations of Indian banks. One can say that the author has set before himself the task of discussing in detail how bankers advance money against goods; and it is, therefore, unjustified to expect anything more from him. We agree with this argument ; and if we expect all this from Mr. Sastri it is only because he is such a capable and successful writer that he can execute this task with great ability and competence. We trust he would try to devote attention to such aspects of the matter either in the second edition of this book or in the course of another book.

We congratulate Mr. Sastri for writing this eminently useful work and attempting to remove a long-felt lacuna. Let us hope this would inspire other bank officials in this country to write similar books on other practical aspects of banking, and help our educational institutions to turn out youngmen conversant with practical side of the banking business. As a pioneer work which contains much that is original and important for bankers, businessmen and economists, Mr. Sastri's book is most valuable. We recommend it very strongly to our readers and hope it would be read with profit and attention by our University and College students and others.

A. N. AGARWALA

OUR STERLING BALANCES, by M. V. Bhatawdekar. Published by Messrs. Padma Publications, Ltd., Bombay. 1944. Pp. 47. Price Re. 1.

The problem of the Sterling Balances continues to remain a burning topic and will perhaps do so as long as it is not resolved to our satisfaction by the imperialist masters. But its study as an economic problem is now certainly becoming a little stale. Apart from the interminable controversy which has raged in the press and on the platform for well over three, we know, a large number of brochures and pamphlets by now have also been published as studies on this problem. In view of this large literature, one may be permitted to say that now there is hardly anything new and of importance to be said about it, at least on its academic and theoretical side.

In the present booklet Prof. Bhatawdekar has ably dealt with the various aspects of the problem of the sterling balances and has presented to the reading public quite a comprehensive, at the same time concise, treatment of the topic. The chief merit of this contribution is that, though written by an academician, it is presented in such a non-technical language and easy style that both the general reader and the students of the subject can follow and understand the subject with almost equal ease. The treatment, in spite of being scholarly and comprehensive, is primarily intended for the general reader. In suggesting means for the liquidation of the sterling balances, the author has adopted the usual nationalist approach and his suggestions are generally realistic and reasonable.

R. P. BAHADUR

PLANNING FOR PLENTY, by Sikander Chaudhury. Published by Messrs. Longmans Green & Co. Ltd., Calcutta. 1945. Pp. 76. Price Rs. 1-8 as.

The author of this small book examines the three main plans before the country from the standpoint of his thesis that "we cannot hope for economic expansion any more on the basis of the capitalist order of society." He reaches his thesis in this manner. "Every act of production leads to a surplus...the owners of the material outfit...retain the whole of this surplus as their profits...But the power of consumption, represented by the payments made to the workers and the amounts spent by the capitalists on their own needs, continually falls short of this capacity... The crux of the matter is the falling rate of profit...That is to say investment must be intensified, expenditure on direct consumption checked." The economic theory in opposition to this thesis is described as "orthodox theory", "traditional economics", etc. While few "orthodox" or "traditional" economists are likely to stake their reputations on the thesis of the author, it must be acknowledged that his criticisms of the three plans hit the mark squarely in more than one instance. His observations on sulphate of ammonia economics of Sir Ardeshir Dalal deserve to be recorded and reflected over by many even in the ranks of the professional economists. "This is not to say that artificial manures are unwanted. They are inapplicable to the present system of agriculture. What is unwanted is that system." His appraisal of the "energetic bustle" of the central and provincial governments of this country suffers if at all from serious understatement. On the whole this vigorous and well-written pamphlet deserves serious perusal from all interested in the economic future of this country.

S. K. MURANJAN

WHAT IS WRONG WITH INDIAN ECONOMIC LIFE, by V. K. R. V. Rao (2nd edition). Published by Messrs. Vora & Co. Publishers, Bombay. 1945. Pp. 64. Price Rs. 1-4as.

This booklet "published in response to a request from several friends" consists of radio talks "designed exclusively for laymen and...planned accordingly." It must be admitted that the booklet is very true to its

origin. It starts with a routine and perhaps unavoidably tiresome list of the economic evils and deficiencies of India in agriculture, industry, currency and banking, public finance etc. When we arrive at the stage of policy, and remedies, we are told in effect that what exists must be changed, and reversed. While this kind of economics is perhaps quite suitable for the "laymen," if not indeed inevitable, it is difficult to say whether it is quite suitable for a review in the Indian Economic Journal which is not meant exactly for laymen. And, after all, is the Indian layman who can follow English broadcasts as ignorant as the author of these talks self-evidently takes him to be ?

S. K. MURANJAN

TECHNICAL AND ECONOMIC COOPERATION, by N. R. Sarker. Published by Messrs. Kitabistan, Allahabad. 1944. Pp. 24. Price 6as.

Mr. Sarker is one of those Indian industrialists who can think of economic problems in the right perspective and can express them in effective and lucid style. In the present pamphlet, the learned author has pleaded for technical and economic co-operation between England and India. He rightly believes that such a co-operation is in the best interests of the two countries. He has discussed the various problems, *e.g.*, of India's post-war currency and exchange, financial relations, sterling balances, technical requirements and scientific research, etc. in a refreshing manner. With his clear insight into the economic deficiencies and requirements of the two countries, he has pleaded for a new approach on the basis of real partnership.

K. L. G.

REPORT ON AN ENQUIRY INTO LABOUR CONDITIONS IN THE BRASSWARE INDUSTRY OF MORADABAD, by R. D. Pant. Published by Department of Economics and Statistics, U. P. Government, Allahabad. 1945. Pp. 49. Price not mentioned.

The present Report is the result of the investigation undertaken by Mr. R. D. Pant, Labour Investigator, Labour Office, U. P. Government. The author deserves our warmest congratulations for the very excellent quality of this Report. In the second instance we may also express our appreciation of the initiative taken in this matter by the Labour Office, U. P. Government, without whose help and encouragement perhaps this Report could not have been written.

In a brief report Mr. Pant has covered practically every aspect of the brassware industry of Moradabad of which, it may be mentioned, before this report, we had heard so much and knew so little. Generally official reports of this kind are so factual and sketchy in the treatment of the subject matter that only the initiated can usually benefit from them. In this case, however, Mr. Pant has perhaps broken new ground by giving us such a complete and real picture of the working conditions of this

industry that after going through it one feels like having read a small cyclopaedia on the subject.

There are elaborate statistics at every stage of the argument. Presentation of the workers' case is impartial but sympathetic. In all it is such a complete report that it can easily become the basis of any contemplated legislation on the subject.

It is needless to mention that in the absence of such literature both academicians and legislators are only left thinking in the air. It is to be hoped that this report will prove a happy augury and it will be followed by many more of the kind, covering other parts of economic life of the people of these provinces. In the end I once again congratulate both Mr. Pant and the Government for placing such an informative and helpful material in the hands of the public.

R. P. BAHADUR

ECONOMIC PROBLEMS IN INDIAN AGRICULTURE, by Mahesh Chand. Published by Messrs. Vora & Co. Publishers, Ltd., Bombay. 1945. Pp. 56. Price Re. 1-4 as.

The subject is of fundamental importance and the publishers are well-known for their products. But the volume leaves the reader quite disappointed, after perusal. There has been a large amount of literature issued by the Reconstruction Committee of Council, the Imperial Council of Agricultural Research and the Policy Committee on Agriculture, Forests and Fisheries, but no part of this small pamphlet makes any reasonable reference to such Government literature. It seems as if the author knew little about it; for, many important issues which must come in prominently within the scope of the title of the volume, like land revenue policy, fiscal policy, price administration, agricultural finance, insurance of crops and live-stock find little mention if at all in these pages.

As is usual with many present-day publications in India, the different chapters mostly comprise reprints (in some cases slightly modified) of articles in weeklies. The general tone of the author is far from practical. On page 20, he begins the chapter with these words : "I am posing for this chapter the question : "In what directions should efforts be now made to provide better irrigation facilities in India ?" The question—apart from "posing" does not admit of simple and/or made-easy answers : tube wells flourish in one part of the country (for example the U. P.) but do not suit the southern districts of Hyderabad. Some agricultural experts hold that canal irrigation does not suit black cotton soil. On the question of fragmentation and sub-division of holdings, Mr. Chand enumerates "arguments" and arrives at the "remedy"—"consolidation". In some parts of India, the need for consolidation is not imminent, as for instance in Hyderabad State where the size of the average holding is about 20 acres. In other areas, the scope for improvement lies much more in intensive cultivation than in consolidation. In still others, consolidation results are melting away with the lapse of time—as partitions and sales go on, specially the former without any recording in most cases. This Euclid process does not fit in with economic problems, particularly those relating to Indian agriculture.

In many chapters the reader is faced by certain statements which find no relevance: on page 47, "Ecology demands a consideration of not simply the soil and the plant but also of the climatic and biological environments." Surely successful agriculture demands attention to these things, and if the author wanted to give a discourse on "Ecology", he should have given a separate chapter for that.

In his Preface, there is an astounding dictum: "The conditions and defects of agriculture are however too well known to be recapitulated in detail. Brevity and analysis are most desirable on such problems." This merely means that Mr. Chand does not know anything about Indian agriculture, and without direct knowledge he has attempted class-room essays from which actual workers as well as students ought to be saved. Mr. Chand should have prepared himself much better before launching on this handling of perhaps the most important economic subject in this country at present.

S. KESAVA IYENGAR

THE ECONOMICS OF INDIAN AGRICULTURE, PART II, by B. V. Narayanswamy and P. S. Narasimhan. Published by Rochouse & Sons, Ltd., Madras. 1944. Pp. 243. Price Rs. 4.

Part I of this book was reviewed in the Journal in July 1944 issue. This part deals with the methods of cultivation, irrigation, sub-division and fragmentation of holdings, agricultural technique and equipment in India, marketing of agricultural products and the Land tenure systems. The book is well written and covers a wide field. It admirably suits the requirements of undergraduates in Economics and Commerce courses for whom it is probably meant. The general reader can as well read it with profit.

K. L. G.

POPULATION PROBLEMS IN SOUTH-EAST ASIA, by Radhakamal Mukerjee. 1944. Pp. 36. Price 9as.

PROBLEMS OF INDIAN CURRENCY AND EXCHANGE. by N. R. Sarker. 1944 Pp. 33. Price 9as.

INDIAN CURRENCY, by Sir Theodore Gregory. 1944. Pp. 13. Price 6as.

JOURNAL OF THE INDIAN INSTITUTE OF INTERNATIONAL AFFAIRS. Vol. 1. No 1. January 1945. Single copy Rs 2-4-0, Annual subscription Rs. 9.

All issued by the Indian Institute of International Affairs, New Delhi, and published by Kitabistan, 9, Cawnpore Road, Allahabad.

In pamphlet No. 1, Dr. Radhakamal Mukerjee, who has devoted the best part of two decades now in a most extensive study of the population

and emigration problems of South-east Asia from the demographic, sociological and ecological points of view, examines the question once again in the light of recent population statistics and establishes a strong case indeed for a comprehensive policy of international regulation of population movements with a view to establishing a stable and progressively evolutionary equilibrium between the rapidly growing population masses of India, China and Japan on the one hand and the empty spaces of undeveloped monsoon and equatorial regions of Burma, Malaya, Siam, Indo-China and Ceylon on the other.

In pamphlet No. 2, Mr. N. R. Sarker, after a careful survey of the Indian currency and exchange policy during the last hundred years, discusses the problem of currency policy in the immediate post-war period. He endorses the current view that by far the greater part of India's sterling balances should be earmarked for the import of capital goods according to a pre-determined programme of economic development. In this connection, he further suggests that a special development fund, comprising sterling and dollar securities to the tune of Rs. 600 crores, should be established by withdrawing this amount from the Currency Reserve, which would permit of the necessary contraction of currency to the outer limit of this figure. But, as the writer himself recognises, this problem of post-war adjustment of currency and prices is an extremely complicated one and it has to be examined thoroughly before any far-reaching measure is adopted. We must say, however, that there cannot be any question of a rapid and wholesale contraction of Indian currency on any account whatsoever, because that course would be definitely fraught with grave disaster for our entire national economy. And we believe that India can achieve a substantial measure of stability in her currency and prices, if she adopts an expansionist programme and further, if she establishes an exchange ratio appropriate to the present price levels in agreement with the International Monetary Fund.

In pamphlet No. 3, Sir Theodore Gregory, without committing himself to any rigid view of the matter, sets out, with impressive accuracy and precision, the chief elements which constitute the problem and which must be taken into consideration in reaching a sound conclusion regarding the future of Indian currency. He impartially discusses the various possible alternatives, such as the gold standard, the dollar standard, the sterling standard, and the 'free rupee', and opines that "those responsible for framing a future monetary policy for India may come to the conclusion that though a 'free' rupee might be preferable to a rupee stabilised *de jure*, the balance of advantage lies in a *de facto* stabilisation."

We have much pleasure in extending a hearty welcome to the Journal of the Indian Institute of International Affairs, of which the first issue, which is before us, is quite rich and attractive in the quality and variety of its articles, all of which are written by distinguished experts on the respective subjects. The section on Book Reviews also shows a high standard. We trust that this new Journal will soon take its place among the leading periodicals of the world and will continue to grow in its usefulness and popularity.

H. L. DEY

IBN KHALDOUN, PIONEER ECONOMIST, by Mohammad Aly Nashat. Published by Society Fouad ler d' Economic Politique de Satistique et de Legislation, Le Caire. 1944. Pp. 11?. Price P. T. 20.

This book is a thesis which Dr. Nashat submitted for the Doctor's degree in Egypt. For the first time, the economic ideas of the famous Muslim historian and economist Ibn Khaldoun whose full name is Abdul Rahman Ibn Khaldoun, born in Tunis on 27th May 1332, are made available to the English reading public in a systematised manner.

The book consists of 11 chapters. In the first four chapters the author deals with the economic theories, in the next four chapters he deals with social problems, like population, etc. It has important chapters on public finance, theories of economic policy, and the economic interpretation of history.

The greatest tragedy of the East is that we who are living in the East hardly appreciate our glorious past and the contributions which we have made to the advancement of sciences, arts and culture. I am not one of those who believe in medieval romanticism or always pine for the past and neglect the present. I am quite conscious of the great contribution which the West has made to modern civilisation, learning and arts, but unfortunately we have been so much glamoured by the West that we ourselves regard our contributions as almost insignificant. This is far from the truth.

As an undergraduate, I was told that economics was a western science and Adam Smith was its founder. There are many writers who begin the history of economic thought only with Adam Smith; others begin with Physiocrats. Some have condescended to include Merchantilists also, although they do not regard them as proper economists. The most comprehensive English text-book which has come to my notice is 'History of Economic Thought' by Haney. It traces the history of economic thought from earlier times. I was surprised to find that in this work although considerable space has been devoted to the contributions which Greeks and Romans made to economic thought, the Hindu economic thought has been dismissed in a few paragraphs though several centuries before Christ Manu in many ways made important contributions to economic thought. In the field of interest his famous law of Damdopat has recently come to prominence in the post-depression period in India, as a guide for debt relief. I strongly suggest that in this country special efforts should be devoted by scholars to work out a comprehensive history of the economic contributions made, both by the Hindu religion and Hindu scholars.

In modern text-books on History of Economic Thought no mention has been made of the contributions of the Chinese and of the Muslims. I am not competent to write about the economic contributions of the Chinese.

As regards the Muslim contributions I am myself working on the subject. A student has recently prepared a thesis under my supervision on the Economic Doctrines of Islam and I have myself just published a book on Islam's contribution to the Theory of Interest.

I personally believe that Indian Economists in spite of their handicaps and limited opportunities have made considerable contribution to economic thought both in the past and in the present and it is essential

that these contributions should be brought to the notice of the students of economics.

Contributions of Ibn Khaldoun

In considering the economic contributions of Ibn Khaldoun, we must always remember that he wrote in the 14th century when Europe was practically enveloped in the dark ages and feudalism was the strongest political force. A German scholar N. Schmidt hails Ibn Khaldoun as a philosopher, historian and sociologist and considers him in advance of Montesquieu, Buckle, and Spencer. He is one of the first economists to acknowledge the productive character of services. This has not always been recognised. We all know that in the "Wealth of Nations" Adam Smith declared the professions as unproductive because, "they do not fix or realise themselves in any permanent objects which endure after that labour is past."

Ibn Khaldoun has made important contribution to the theory of value. He has shown that value is the result of interpretation of demand and supply. The utility and cost of production; value results from human efforts and also from factors not under human will. Furthermore he had a clear idea of the inter-dependence of economic phenomena and interdependence of markets and prices. In his Chapter on Interdependence of Prices, some of his observations are very penetrating. He describes how the slump in some branches affects other branches and says "If low prices prevail in agriculture, this will affect all those interested in land products; in the first instance come peasants, then workers, bakers and the slump reaches the cloth industry etc".

His views on population are also very refreshing. He considers that increased co-operation through increased devotion of labour which results from the increase of population makes the law of increasing productivity applicable. He thus precedes Marshall who in Chapter 4th of his principles had remarked that "an increase of population is likely to be continued to be accompanied by more than a proportionate increase of the means of satisfying human wants".

I have been very much impressed by his views on taxation. He says "if taxes on subjects are few, the subjects become active and feel an impulse for work so that prosperity and satisfaction prevail, and when prosperity and economic activity increase the output of taxation increases accordingly". He also precedes Adam Smith in his canons of taxation by laying special emphasis on equity and moderation.

Lord Keynes' great contribution to economic thought was made in years of depression when he wrote his famous pamphlet "Means to Prosperity". He advocated that instead of following the usual policy of balancing the budget by curtailing the expenditure which further accentuated the depression by creating more and more the employment, it was desirable to pump more purchasing power in the society by spending money on public works. Ibn Khaldoun explains how the decrease of State expenditure is followed by a decrease in receipts. He says that when the Sultan curtails his expenditure, he thus curtails in advance the output of on-coming receipts. Considering the effects of circulation of money and expenditure he further remarks, "when money is treasured and hoarded it does not grow; if it is spent on prospects of bettering the state of subjects, securing their rights to them and protecting them, then

it grows, fructifies and booms...the very treasure to be acquired is the spending of money in prospects of bettering the people's conditions".

The Originality of Ibn Khaldoun

His title to originality is not only due to this precedence in time but it is based mainly on the prominence of his views among economists up to the classical school. A rapid comparison with other economists up to Adam Smith is bound to show his superiority and his genuine claim of being a "founder" of a school of thought.

The Greek economists, who occupy some of the first pages in the history of economic doctrines, compare poorly with Ibn Khaldoun. Aristotle, one of their best masters, expounds some scattered elements and notions about economics ; he considers that commerce with desires of gain is not an ideal means of living ; he shows contempt towards labour ; on the contrary, he considers conquest, pillage, as natural means of living. Decidedly, his views on economics are rude and of doubtful scientific value or significance.

A similar opinion can be expressed about the Romans who "even less than the Greeks, have not transmitted to us any system of political economy".

In the Middle Ages, economic facts were studied by legislators and moralists. "Economic doctrines, playing the role of auxiliary doctrines, are expounded by jurists to explain some laws, or by theologians as arguments in favour of some moral rules ; such is the case with the theories of the schoolmen on interest, capital, property, etc......"

Ibn Khaldoun, however, had no intention of doing the work of a jurist or a theologian. He considered the study of economics as an essential part of the study of society which is his main object ; he had scientific ends in view, namely the discovery of laws and tendencies that govern society. He is a scientific economist, not a moralist or a jurist. "The doctrinal work of the Middle Ages," says Brants, "has been the teaching of the morals of economics (ethics of economics), in conformity with justice and Christian charity, and to apply these principles to the social conditions of these days".

With the Mercantilists, we find a better understanding of economic facts ; attempts are made to base economic policy on sound economic theories. Yet the work undertaken is primitive and limited in scope. Ibn Khaldoun's scientific horizon is more varied ; he is not one sided as the Mercantilists. He has praised the stability of gold and silver but he did not go so far as to say that the wealth of countries lay in the mere accumulation of gold and silver. On the contrary, he considers that their abundance depends on the booming of economic activity and not on artificial limits on trade.

We find in the Physiocratic conceptions, some resemblance with Ibn Khaldoun's views on the spontaneity and necessity of agriculture ; however, he is not of their opinion on the "classes steriles". He even says that agriculture is related to the primary stage of production and that in more advanced stages, it is industry and the booming of markets that really count.

Colosio, comparing Ibn Khaldoun's views to those of Machiavelli, says "Si le grand florentin nous instruit sur la facon de gouverner, il le feit en

diplomate et politique clairvoyant, tandis que le savant tunisien a su penetrer les phenomenes, sociaux en economiste et philosophe profond, ce qui bien lui permet de s'attacher a son œuvre avec une hauteur de vue et un sens critique encore ignore a son epoque''.

We consider Ibn Khaldoun to be the worthy predecessor of Adam Smith. They have, indeed, many points in common, both in their life and in their opinions. The two economists have had a good deal of travel; they have been professors in universities and gave public lectures; Adam Smith in Glasgow and Ibn Khaldoun in Cairo. Adam Smith taught logic, and Ibn Khaldoun wrote a book on logic. The two writers have chosen a similar object of study : the social activity. They wrote on defence, establishment of cities, division of labour, stages of production; they advised moderation in taxation; they equally defended economic and political liberty. They have known the importance of the law of causality in social studies; they have equally the merit of being "scientific" writers on economics.

Adam Smith has seen the dawn of the Industrial Revolution; he had in front of him new elements of study. Ibn Khaldoun, however, had a larger horizon of study; he has been not only an economist, but an economic interpreter of history also; even in some details of economic theories he is superior to Adam Smith such as in his understanding of the productivity of immaterial services; also, his recognition of the importance of the condition of equality of purchasing power in the maximizing of satisfactions. By comparing favourably to Adam Smith, whom he has preceded by four centuries, Ibn Khaldoun's claim to being a founder is decidedly secur..

Because of the wide range of his opinions, it is difficult to consider him as making part of a definite single school; it seems that he should be classified in the eclectic school; however, what is most striking in his writing, is his defence of freedom and liberalism. He constantly advocates freedom in its varied forms; from the standpoint of political freedom, he regrets that the advance of civilization encroaches on the individual liberty; he defends the freedom of labour and condemns compulsory labour; he asks for a reduction of the fiscal pressure; turning to the economic side, he shows how the market, free from intervention, is bound to secure to individuals their maximum satisfaction; he is decidedly against State intervention and price fixation; he attacks monopoly; he is the champion of the free market, freedom of labour, political freedom, financial moderation in a word, "Liberalism".

Though a liberal, Ibn Khaldoun does not miss the economic meaning of the State; he emphasizes its role in the economic development; the evolution from primary to more advanced stages of production and prosperity, the settlement in cities, city planning, etc, come under the impulse of the States; it influences the factor of demand through its expenditure; thus it effectively encourages the development of industries and the perfection of services; it is "the greatest market and origin of all other markets".

We find in Ibn Khaldoun's writings, some passages which remind us of the socialists. He emphasizes, for example, the importance of labour; he does not however elaborate a labour theory of value. He nearly states an iron law of wages, but considers that the standard of living rises steadily in more advanced and more prosperous communities. Wage-paid work he says is not a natural means of living. Colosio, com-

menting on this statement, says : "By bringing to light that wage-paid work is not in conformity with nature, has he not preceded by five centuries, our socialists who declare that social justice imposes the abolition of the wage-paying state, as a solution of the social question".

What gave, however, the real impetus to socialism was the introduction of machinery and the establishment of a class of wage-earners different from the class of capitalists; new conditions were brought about, and they required new solutions; the imperfections of the economic machinery gave the opportunity to socialist doctrines, and the result was a socialism characterized by class struggle; it is different from the doctrines of Ibn Khaldoun. He respects, on the contrary, the free market, private initiative and private property; he defends the freedom of labour; he refuses to admit State intervention in trade and agriculture; nowadays, he could hardly be called a socialist. His true character is reflected in his being the pioneer liberal economist.

I am afraid I have already devoted a good deal of space in reviewing the economic doctrines of Ibn Khaldoun. But the pioneering nature of his work and general ignorance about his contributions in the English-knowing circles made me to exceed the usual limits of an ordinary review.

I would like to conclude that the production and the printing of an important work like this leaves much to be desired. It would have served a better purpose if the author had given an introductory chapter about the economic conditions of the times in which Ibn Khaldoun wrote and in the text a comparative study of earlier and the later economic ideas should have been made to properly show the importance of Khaldoun's contributions.

ANWAR IQBAL QURESHI

ECONOMIC AND COMMERCIAL ESSAYS, by A. N. Agarwala and S. N. Agarwala. Published by Kitab Mahal, Allahabad. Second Edition. 1945. Pp. 223. Price Rs. 3.

The book under review is meant "for students and general readers, and not for experts." It contains slightly less than six dozen concise and compressed essays on agriculture, industries, population, labour, banking, finance, consumption, commerce and economic planning. The authors have taken a wide sweep and written on Bombay Plan and Sterling Balances, effects of war and social security, rupee ratio and foreign capital, tariff policy and industrial finance. The choice of subjects is judicious and the treatment lucid. Some contributions by Prof. C. N. Vakil, Prof. B. P. Adarkar, Dr. B. V. Narayanswamy, Prof. G. D. Karwal and others have also been included. We recommend the book strongly to general readers and students of economics who can get from these essays ample information in a short time on so many important economic topics.

R. G. S.

PROF. R. M. JOSHI'S PAPERS AND WRITINGS, Edited by A. R. Bhat. Published by N. K. Publishing House, Poona City, 1944. Pp. 112. Price Rs. 1-8as.

In this neatly printed book Mr. Bhat has collected various papers and articles of late Prof. R. M. Joshi, which he contributed to journals etc. from time to time. These are twelve in number—eight on economic problems; three on educational ones and the last on Leipzig Fair. A brief life-sketch of Prof. Joshi is also given at the beginning.

Sir Chunnilal B. Mehta refers to these writings in the following words:—"Though the form has changed the problems with which he dealt are still before the country in substance and I have no doubt that the views of the late Professor will be found valuable and weighty even today." One finds oneself in complete agreement with this statement. We may take him as an educationist first. What he said with regard to the adoption of vernacular as medium of Instruction is as true today as it was when he said it in 1925 except for the fact that it has been adopted as such for the High Schools. He is so very realistic when he says, 'The teacher mentally translates his argument into English; he consequently translates as little as he must, puts in 'of course' 'don't you understand?', 'say', etc. etc., to fill out the gaps and thus gets through the unpleasant necessity." Then he further says "India is probably the only country in the world, where a case has to be made out for using the mother tongue as the medium of all instruction. Elsewhere the proposition would be regarded as axiomatic." How sad though so true that even for this we have to make out a case! Other educational problems dealt with are: "Commerce Students and Practical Training"; "Technical (including Commercial) Education in the Bombay Presidency."

The economic problems which are discussed in this book are: "Central and Provincial Financial Relations"; "Division of Functions and Division of Resources in India"; "The Financial Proposals in the Simon Report"; "Indian Railway Finance"; "Agricultural versus Industrial Development of India"; "The Gold Standard and the Gold Bullion Standard"; "1s. 4d. or 1s. 6d.?"; and "The Economics of the Ratnagiri District." Every problem has so very brilliantly been analysed that it leaves no doubt in the reader's mind as to its necessity and justification. The arguments are nothing but convincing and the language and style leave nothing that could be desired while discussing the problem of 1s. 4d. for example, he so forcefully makes out a case in the following words:—'In brief, it is not for the advocates of 1s. 4d. gold to make out a case at all, as the majority consistently but wrongly assume in their report. It is for the advocates of 1s. 6d. gold to put forward more substantial arguments, if any, than the very weak one *viz*, the 'de facto' argument which is the only one which the majority have been able to produce."

No reviewer can do justice to the works of this great scholar in a limited space. All that he can do is to recommend these to all those who are interested in the economic problems of our country. It is indeed a very thought-provoking publication, for which the editor and the publisher must be congratulated, and which no student of economic problems of India can ill-afford to ignore. It was sad indeed that the life of this great Indian economist brought up in the tradition of late justice Ranade and Mr. Gokhale, was cut short by the Invisible Hand of Destiny at the young age of 45!

R. G. SARIEN

OFFICIAL PUBLICATIONS

STATISTICAL SUMMARY OF THE SOCIAL AND ECONOMIC TRENDS IN INDIA IN THE INTER WAR-PERIOD, by S. Subramanian, Statistician to the Economic Adviser. Published by the Manager of Publications, Delhi. 1945. Pp. 41. Price Re. 1-8 or 2s. 3d.

Mr. S. Subramanian has already rendered a valuable service to the economists, Government officials and general public, by preparing *A Guide to Official Statistics* which is as valuable as comprehensive. He has, within a short compass of about three dozen pages of this new book, satistically summed up the whole of the social and economic progress that this country has made during the inter-war period, with ability and competence. He gives 21 tables in all which relate to area and population, literacy, public health, industrial labour, agricultural production, forests, industrial production, trade, transport and communications, banking and currency, prices and wages, Government help to industry and trade, and so forth. A large number of expressive and beautiful bar diagrams have been furnished which are of very great value. There is a concise but clear introduction in the beginning covering 10 pages, Though the figures relate mainly to the inter-war period, statistics for the period following the outbreak of the war also included. In his prefatory note, the Economic Adviser observes that "A new era of readjustment will have to follow the suspension of hostilities and it is clear that the planning necessary to meet the exigencies of the time will have to cover a very wide ground. To control the future, knowledge of the recent past is indispensable and it was considered useful, therefore, to attempt a factual survey of the whole position. With this end in view the available statistical material has been brought together in this hand-book." The task has been achieved with competence, thoroughness and ability. Within the compass of bare three dozen and odd pages, the statistical and explanatory material furnished and wide range covered are amazing. It is a very useful publication and we commend it very strongly to our readers.

STATEMENT OF GOVERNMENT'S INDUSTRIAL POLICY. Published by the Superintendent, Press of the Private Secretary to the Viceroy, New Delhi. 1945. Pp. 8. Price not mentioned.

This useful pamphlet has been issued by the Planning and Development Department and contains a complete statement of the Government of India on their industrial policy. This statement has dominated the economic and commercial press in this country in the recent past and has been discussed thoroughly. Its brief summary is, therefore, unnecessary. Those who wish to keep this important statement at their beck and call will do well to obtain this small pamphlet.

REVIEW OF THE TRADE OF INDIA IN 1942-43. Issued by the Office of the Economic Adviser to the Government of India. Published by the Manager of Publications, Delhi 1945. Pp. 245. Price Rs. 3-14 or 6s. 3d.

This is the sixty-ninth yearly volume of the review of trade of this country and contains the usual features. Nearly one-third of the book has been devoted to a discussion of the general economic trends during 1941-42, in which the developments in the sphere of agriculture, industry and finance have been set forth in detail and with ability. The succeeding chapters discuss Imports of Merchandise, Exports of Merchandise. The Direction of Overseas Trade, Foreign Sea-borne Trade of the Maritime Indian States, Frontier Trade and Balance of Trade. This discussion is followed by 49 valuable tables and two appendices. There is a useful index at the end. Too often it has been said that the publication of the *Review* about two years after robs it of much of its usefulness. We regret to have to say that no attention has been paid to secure an earlier publication of the book under review. Nevertheless the book is a mine of important information and is indispensable to every student of Indian economics.

ANNUAL REPORT OF THE CHIEF INSPECTOR OF MINES IN INDIA for the year ending 31st December, 1942. (Abridged Edition). Published by the Manager of Publications, Delhi. 1944. Pp 93. Price Rs. 3-14.

As usual, this report submits the results of the inspection of mines in British India for the year ending 31st December, 1942. It first deals with the weighty problem of accidents and records that during the year under review, there were 287 fatal accidents which is 27 more than in 1941 and 38 more than the arrange number in the preceding five years. No less than 81% of the accidents were caused by misadventure while about 8% of the accidents were the result of the fault of the subordinate staff. In 8% of the cases, the deceased themselves were at fault. The Report analyses in detail the accidents which took place during the year and special study has been made of some typical or more serious cases. Some of the charts given to clarify the latter issue are very valuable.

The Report very briefly discusses the prosecutions and amendments to the Indian Mines Act of 1923 and deals with the problems of health and sanitation, working of mining boards of Bengal, Bihar and C. P., which incidentally did not meet even once during the year, mining education, scientific and technical associations and labour associations. The excellent work done by the Asansol Mines Board of Health and Jharia Mines Board of Health is clear from the obvious improvement in health conditions. In Asansol, the death rate fell from 19.4 per thousand in 1941 to 12.6 per thousand in 1942. The respective figures for Jharia are 14.37 and 12.92. There was marked decline in infantile mortality rates as well. This is only an abridged report and if one feels the scantiness of the information supplied herein, he can have recourse to the full report. Nevertheless, we might make a suggestion or two. The present report contains too many charts and tables; and the explanatory and other matter given is very scanty. It would be better if in subsequent reports

greater emphasis is laid on a discussion of health conditions and the improvements or decline in health since the last report; why did accidents take place and what methods need now be applied to reduce them; does the machinery set up to deal with the various problems relating to mining work satisfactorily; how are labour conditions generally improving; and so forth. These are the important points on which much valuable information can be furnished and which would interest and benefit the public and enable experts and general readers have an idea regarding the work of the mining inspectorate. Moreover, it is a standing complaint against Government publications that they come out nearly after 2 years—this report has been published exactly 2 years 4 months after the period to which it relates. Perhaps with some efforts, the publication could be secured earlier; and if so, every effort should be made towards this end.

JOINT STOCK COMPANIES IN BRITISH INDIA AND IN THE INDIAN STATES, 1938-39. Issued by the Offg. Director of Statistics and published by the Manager of Publications, Delhi. Pp. 246. Price Rs. 14-12-0 or 23s.

This twenty-fifth issue of the above-mentioned valuable publication relates to the year 1938-39 and has been published as late as now. Leaving the first five pages which contain an *Introductory Note*, the whole volume is covered with statistical tables giving the number, description and capital of companies at work in India at the end of each year from 1929-30 to 1937-39, of companies newly registered during the year 1938-39, of those which ceased to work during the same period, and of foreign companies working in India at the close of the period under review. There is, in the end, a 200-page alphabetical list of companies at work in this country on 31st March, 1939. To those interested in the growth and development of joint-stock enterprise in India, this volume, like its predecessors, is indispensable.

WORLD ECONOMIC DEVELOPMENT: EFFECTS ON ADVANCED INDUSTRIAL COUNTRIES, by Eugene Staley. Published by International Labour Office, Montreal. 1944. Pp. 218. Price 5 shillings.

Immense technological improvements made within the framework of Capitalism have led to considerable economic development which though initially confined to only a few leading nations of the world have since then ramified to almost all the nations, though the extent to which the latter have been able to make use of them is a matter on which wide variances are inevitable. The recurring wars have helped the economic advancement—which must needs become industrial at a later stage—to a large number of backward countries; and this development is continuing with steadiness and surety. Indeed, a stage has now come when it has become a matter beyond the shadow of doubt that the economically backward races, even when hampered with political, social, religious and other obstructions, would forge ahead on the path of industrial progress. As such the problem of the effect of this economic advancement on the

advanced industrial countries of the world has ceased to be merely academic. The problem has, indeed, been increasing in urgency and pressure as this development has been getting more vigorous and today when we are on the brink of great economic decisions, national and international, this is an important issue to be reckoned with. Professor Eugene Staley has, therefore, rendered a great service to the students of international economics in particular and economists and statesmen in general by making a very valuable study of this important problem, which has made a timely appearance in the shape of 36th volume in the *Studies and Reports, Series B (Economic Conditions)* sponsored by the International Labour Office. It is without doubt one of the most timely and remarkable publications that have been recently brought out by the I. L. O.

Professor Staley makes it abundantly plain that the advanced industrial nations of the world would be committing a grave error if they adopt a "negative attitude" and refuse to help the backward countries in their programme of greater production and consumption. For the latter are bound to rise and progress even if they are hampered in their attempt by the nations having the advantage of an early start ; and if the former do not help them in this, the effect would be that the tendency towards economic nationalism would be strengthened, the backward nations will in course of time get strong, and they might not only refuse to help or co-operate with the advanced nations but even try to subjugate them. On the other hand, if the industrial nations of today adopt a "positive attitude" and willingly come forward to help them in this endeavour, it is quite possible to determine the time and direction of the development of backward areas so as to realise employment and income stability in the advanced countries, leading to a new "long wave" of prosperity. Professor Staley furnishes a whole set of valuable suggestions how this could be achieved. He is of the opinion that all the nations of the world should come together, set up an international development authority, and secure desired harmony in drawing up economic plans and executing them.

Professor Staley's thesis is, however, based on three assumptions They are (*i*) international political security, (*ii*) national political security and (*iii*) necessary international co-operation from the industrially advanced nations. Granting that the suggestions of Professor Staley are sound and worth following, the question arises as to what are the chances of these assumptions being realized in practice. The end of the European War has not unfortunately given indications of the establishment of a durable peace ; while the industrially advanced countries are not at all willing to come forward to the aid of the backward nations. Professor Staley gives quotations from r sponsible persons in the United States in support of the view that imports increase in proportion to economic development and consequently it is in the interests of the United States to see that the depressed areas are pulled up. But he does not mention a single authority who supports this thesis in Britain, which is a grim pointer to the prevailing opinion in that country. While U. S. A. has been following the policy of mutually beneficial economic co-operation on continental basis through the instrumentality of the Inter-American Development Commission, Britain continues to follow the old policy of Imperialism, economic penetration, exploitation of the politically backward areas through the medium of the institutions like the United Kingdom Commercial Corporation. Perhaps the Britishers will require

a lot of explaining to understand that they cannot hope to expand their foreign markets in economically weak and dissatisfied countries, to the desired degree, by imperialistic devices.

But to overlook the merits of this valuable work on the ground that the basic conditions assumed by its authors are not likely to exist in near future would be a grave error. That these conditions might not exist in immediate future is not of Staley's choosing. He has told us the conditions in which international economic co-operation will help us to the utmost. It is now the duty of those who have the well-being of their nation and of the world at heart to exert themselves to realise the conditions which are basic to such salutary co-operation. And it is precisely this angle from which one must read this important book.

Without doubt it is a most remarkable and revealing document and must rank among some of the best books that have recently been published. That this dispassionate, sincere and bold study has come out at a time when the future of the world is being hammered at the world conferences and the postwar reconstruction schemes are being finalized and put into practice, increases its value considerably. We recommend this book strongly to our readers.

A NEW ERA: THE PHILADELPHIA CONFERENCE AND THE FUTURE OF THE I. L O. Published by the International Labour Office, Montreal, 1944. Pp. 45. Price 4 shillings.

The Labour Conference held at Philadelphia in April-May, 1944, devoted six sittings to the discussion of the Future Policy, Programme and Status of the International Labour Organization and Recommendations to the United Nations for Present and Post-War Social Policy, and two sittings to the discussion of the Director's Report. The present volume contains in a handy form the speeches delivered by the delegates in the course of these sittings and makes a useful and interesting reading.

While delegates from non-Asiatic countries seem to be generally agreed that the I. L. O. has been serving a useful purpose and has a very important part to play in the postwar period, the Asiatic delegates do not appear to be so enthusiastic regarding its achievements. The Indian delegates in particular were very outspoken and made a vigorous plea for paying greater attention to Asiatic problems. Mr. Jamnadas Mehta declared that "the many Conventions of this Organization have not eased the situation"; and that in the continents of Asia and Africa, even the beginnings of the application of the main principles of the I. L. O. are still to be made." He appealed the I. L. O. "to extend your arm and your hand of assistance to these countries of India and China..." Mr. Aftab Ali, in a similar strain, accused the I. L. O. of a lack of interest in the labour problems of Asia and declared that "in my humble opinion, the Asiatic workers will not accept this apparent lack of duty as an act of modesty. On the contrary, I think they will treat this as a clear breach of faith on the part of the I. L. O." The Hon'ble Mr. H. C. Prior also expressed his anxiety that "the Asiatic side of the Organization should be strengthened", and he warmly welcomed the proposal for an Asiatic regional conference. Certain procedurial im-

provements suggested by him and the new service which he wanted the I. L. O. to render to the Governments of the Asiatic countries were thoughtful proposals.

In a conference attended by the delegates of the Government, Employers and Workers of 41 countries which are differently developed and politically situated, unanimity in viewpoints or opinions could hardly be expected. And this volume shows the varying reactions of the various countries to the vital problems under discussion.

In some of the speeches we find a confusion between the functions of the I. L. O. and its achievements. In certain quarters it has almost become a habit to criticise the I. L. O. for failing to achieve certain objects which it is not meant to achieve and which it cannot achieve. While passing a judgment on the functioning of this organization, it is necessary to remember that it cannot get its decisions enforced by force of arms. All that it can do is to carefully study the labour problems throughout the world, give as much help as possible to such country in its attempt to improve labour standards, and try to evolve certain international norms in matters relating to labour. In so far as the I. L. O. has been found wanting in these regards, and we agree with the observations of the Indian delegates that this has been so in certain respects, its future reorganization must be done so as to remove those drawbacks. But more than this must not be expected of it. If the labour standards in any particular country do not improve despite the efforts of the I. L. O., it is perhaps not the fault of this organization. As the President of the Philadelphia Conference rightly observed, the contribution of the Conference would not be complete "unless we go from here determined that each in our own country will work and strive and fight to bring into being the conditions that we have talked of here, to help to write the legislation, and to see that it is properly administered." If the labour standards of so many countries have not improved to the level of the international norms, is it not mainly due to the fact that the delegates or Governments of these countries have failed in their duty ?

Books Received

ALL ABOUT TEXTILES AND CONTROL ORDERS by J. N. Varma. Published by Calcutta Yarn Merchants' Association, Calcutta. 1945. Pp. 212 plus 53. Price Rs. 4-8.

[An excellent book of reference. The first 33 pages make a historical survey of Indian cotton crop, handloom and powerloom, production of yarn and progress of textiles, and contain some useful statistical tables. In the remaining part of the book the author has reproduced Central and Provincial Control Orders, Notifications affecting the Cotton Cloth and Yarn (Central) Orders, 1943, Press Notes issued by the Textile Commissioner, Bengal Government's Notifications, and Press Notes by Provincial Textile Controller of Bengal. In an Appendix covering 53 pages, all amendments up to 15th March, 1945, have been reproduced. The book serves the useful purpose of giving in a handy volume all this important information which is lying scattered here and there and presents serious difficulties in consultation and ready reference. But it contains hardly anything more. An explanation of the working of the Textile Control Orders and a critical review of the whole situation from one in intimate touch with trade would have greatly added to the utility of the book.]

BRITAIN'S STERLING BALANCES AND EXTERNAL DEBT, by Heatherington. Published by East End Publishers, Allahabad. 1945. Pp. 62. Price Re. 1 12 as.

[To be reviewed]

BOMBAY PLAN: A CRITICISM, by P. A. Wadia and K. T. Merchant. Published by The Popular Book Depot, Bombay 7. 1945. Pp. 50. Price Re. 1 8as.

[To be reviewed]

BANKER'S ADVANCES AGAINST GOODS, by D. S. Sastri. Published by Thacker & Co., Bombay. 1944. Pp. 310. Price Rs. 12 8as.

[Reviewed in this issue]

CAPITALISM EXPOSED, by Shrikrishnadas. M.A. Published by Kitab-Mahal, Allahabad. 1945. Pp. 64. Price 12as.

[This attractive little booklet exposes the weaknesses and imminent downfall of Capitalism from the Marxian angle, or what may be better called from the angle of an Indian communist agitator. The treatment lacks the discipline, balance and sobriety of a professional economist; but it is a brief and faithful Marxian study of Capitalism. Perhaps in the next edition the author would like to make it more exhaustive and systematic and try to avoid sweeping statements and hard language. It may, nevertheless, be read with profit and interest.]

DETAILED PLAN FOR THE DEVELOPMENT OF INDIAN JOINT STOCK BANKING, with a special reference to the assistance Banks can render in the growth and progress of Indian Industry, by Brij Narain. Published by Uttar Chand Kapur & Sons, Lahore 1944. Pp. 111. Price not given.

[To be reviewed]

ECONOMIC PLANNING AND AGRICULTURE, by A. N. AGARWALA, P. C. Malhotra, P. Chandra and H. Lal. Published by East End Publishers. 1945. Price Rs. 3-12.

[To be reviewed]

DIARY OF THE WAR, 1944-45. Published by the Bureau of Public Information, Government of India, New Delhi. 1945. Pp. 35. Price 2as.

[A chronological account of the War from September 3, 1939 when Germany invaded Poland to May 7, 1945, when Germany surrendered unconditionally.]

ECONOMIC POLICY AND PROGRAMME FOR POST-WAR INDIA, by Nalini Ranjan Sarker. Published by the author. 1945. Pp. 121. Price Rs. 2 8as.

[Reviewed in this issue]

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[The Admiralty Account of Naval Operations from April 1941 to June 1943.]

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[To be reviewed]

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[To be reviewed]

PUBLIC CORPORATIONS, by Dr. Gyan Chand and others. Published by East End Publishers, Allahabad. 1945. Pp. 112. Price Rs. 4-12.

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REBUILDING LIBERATED RUSSIA, by Professor N. Voronin. Published in India by Kitab Mahal, Allahabad. 1945. Pp. 102. Price Re. 1 8 as.

[It is well-known that the Nazi attack and scorched earth policy ruined many of the Russian towns, cities, villages and pieces of art and architect. In the Moscow Region alone, the Germans destroyed 2,280 villages and burnt down over 47,000 collective farmers' homes and 12,000 urban dwellings. They destroyed 46,000 farm buildings, 1,000 schools, 700 village reading rooms, clubs, etc. A special commission estimated the total damage done in the Russian Soviet Republic at 25,000 million roubles! The problem of rebuilding liberated Russia is, therefore, a huge one and has been engaging the serious attention of the authorities there. This admirable and important work shows how did the Russian Government set about the task of rebuilding in the various parts of that big country. The reading of the book is as interesting as instructive and is particularly useful for us in this country where house-building and town-planning have hardly received any serious attention and where the task of construction is enormous and urgent. We recommend it very strongly to our readers, particularly to those who are interested in house construction and town planning.]

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SCIENCE AND LAW OF INSURANCE, by J. D. Khandhadia. Published by Padma Publications, Bombay. Pp. 143. Price Rs. 3 8 as.

[A very sketchy and slip-slod book on insurance. Though the book intends to deal with the law of insuranee, it devotes barely 3 pages to its discussions. The language is unsatisfactory and the treatment at places ridiculous. For instance, on page 119 the author writes as follows:

"14444" is the figure which will be writ large in blood, in the history of Bombay...... It was this ghastly date of 14-4-44. Time 2 was 4 p.m. Practically all "fours" and yet rendered whole Bombay at "sixes and sevens"]

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Indian Journal of Economics

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COMBINATION AS A FORM OF BUSINESS ORGANISATION IN INDIA

BY

KASTURCHAND LALWANI

Perhaps the most noteworthy feature of modern business not only in the field of production but also in the field of distribution is the increased scale of individual unit and the growth of combination. In the earlier days of industrial and commercial revolution, too much emphasis was placed on free competition; of late the wheel has however turned in the opposite direction and free competition is making room for a system whose sole object is to restrict competition not only within the national frontiers but even in the field of international commerce. The evils of the trade slump has been another factor giving stimulus to combination; for it is considered that during the bad days of depression, when the small firms will be swept away, a larger undertaking may continue to live on its own resources and may survive the crisis. Among other factors stimulating combination, mention may be made of the desire to control raw materials, to control markets and to avail of the economies of large-scale production and distribution.

Where the classical economists started any discussion, they invariably assumed free competition as prevalent in the economic system. In a "world of monopolies," this sort of assumption had a boomerang effect and the theory of Economics became only "an apparatus of the mind, a technique of thinking," without any further utility.

In the present-day world, when combinations are to be found in almost every field, "monopoly is not a question of yes or no, but one of degree." In the words of Kalecki, "A world in which the degree of monopoly determines the distribution of the national income is a world far removed from the pattern of free competition. Monopoly appears to be deeply rooted in the nature of the capitalist system: free competition, as an assumption, may be useful in the first stage of certain investigations, but as a description of the normal state of capitalist economy, it is merely a myth. Here the word "degree" should be read with special emphasis. For, the present-day organisations are neither wholly monopolistic nor wholly competitive. It is all a question of degree, beginning with informal agreement at the lowest stage to the consolidated form of organisation at the highest. The nature and extent of monopolisation also varies in different fields of business. Thus where raw materials and half-finished goods are concerned, a greater degree of monopoly is feasible; not so in case of finished goods, unless, of course, the source of supply of raw materials and half-finished goods, to be utilised in the production of finished goods, is also under the absolute monopoly of the concern in question and no substitute can be utilised for it. Otherwise, absolute monopoly becomes rare and what Chamberlain has termed "monopolistic competition" becomes the rule. To be a bit more precise, when a number of competing firms are producing one and the same thing, each one of them will try to produce at the competitive price but at the same time, though maintaining the same qualitative standard, try to make its product look a bit different, possibly superior so that it may attract the "goodwill" of the customers. This device is very often supplemented by propagandist methods for the exploitation of the psychological weakness of the consumers.

In the field of economic theory, Sraffa's warning was very much timely but the difficulty of theoretical formulation of the "degrees of monopoly" appears to be almost insurmountable. For, each business has its own technique and to strive to convert all the different enterprises into one formula will lead nowhere except to abstraction. Sraffa's efforts at analysis of monopoly "immediately swallowed up the competitive analysis without the smallest effort." The Robinsonian analysis, though aimed at a study of imperfect competition, does not lead us much towards reality; for, after all, it resolves itself

into a study of the problem of demand and supply. And so far as the analysis of demand goes, she is concerned not with the demand for commodities coming from the ultimate consumers but with the demand for "productive instruments and services." It may, of course, be argued that the nature and extent of demand for the productive instruments and services, in their turn, influence the price of finished goods; but the process of imperfection, it must be remembered, does not end merely with the former type of demand, but also extends itself to the finished goods as well. Thus her analysis becomes "highly abstract" from which it may appear "rash" to draw any conclusion applicable to the real world.

Whatever that may be, the question from the standpoint of business organisation is, whether, when the unit of control in business increases in size, there is any very considerable improvement in the technique of production and distribution. At this point a distinction must be made between the advantages of big business and those of combination. A business may grow to an enormous size, far beyond the limit of the requirements of the optimum firm, as, for example, the Madura Mills Co. Ltd., having 229868 spindles, although the average spindleage for the whole of India in 1940 was about 26000 and for the Bombay Island and Province was about 29000. the minimum required to ensure the cheapest cost of production was, according to the evidence of the Bombay Millowners' Association to the Tariff Board, 30000 spindles. The case of Madura Mills Co. is one of big business, a result of expansion, a feature with which we are not concerned in the present discussion. At this stage our sole concern is to consider whether and to what extent the expansion in the size of business leads to efficiency and economy. The difficulty in the way is no doubt very great and a detailed knowledge of the technical situation is called for before any estimate of the economies which may reasonably be expected from monopolisation can be made. At this stage we must agree with Robinson when she says that "different types of monopoly hold out very different hopes of technical reorganisation. When a scheme takes the form of machine-wrecking pure and simple, as in the case of the National Shipbuilders' Security, Limited, or of restriction of output by quotas without any concentration, as under the Coal Mines Act of 1930, there seems little reason to expect any increase in efficiency, whereas an organisation which exercises a detailed control

over a large number of productive concerns m ay have very great possibilities of technical improvement."

While taking it for granted that different types of monopoly hold out very different hopes of technical reorganisation, let us next consider the nature and extent of the benefits derived from combination. In this respect the verdict of a practical businessman, who had promoted so many industrial consolidations in America, Charles R. Flint, is of immense help. Flint, in his 'Memoirs of an Active Life' gives a fairly wide catalogue ; but how many of them are actually realisable and to what extent depends on the degree of monopoly prevailing in a country. But his analysis gives a rough idea as to their nature and extent and there is no doubt that most of them are realisable and leads to efficiency and economy in a fully developed, or nearly so, monopoly. The most careful and penetrating research as to the efficiency of combination has been carried on in the U. S. A. by the National Industrial Conference Board for about sixteen industries over a period extending from 1920 to 1926. The method adopted was to measure the relation of output per worker employed in consolidations and in independent firms. It was found as a result of this investigation that out of sixteen industries, eleven showed a superior efficiency for the year 1926. Of these eleven, six showed a marked superiority and the improvement in the five, though not so great, was by no means negligible ; even the remaining five were at an advantageous position over the independent firms. Our assertion in a previous paragraph that a more perfect type of monopoly is possible in concerns producing raw materials or half-finished goods is also corroborated by the investigation in question when it was found that the advantages of consolidation reached the maximum in the metal refining and also in case of mineral manufacture. Even in matters of technical advance, consolidation has shown distinct advantage. Out of eighteen industries considered, technical advance was greater in case of consolidation in nine industries, in case of independent concerns in four and there was no significant difference in case of the rest. Thus the argument often advanced that in matters technical, monopolisation may lead to "scrap heap" is falsified by American experience, and the conclusion arrived at is "that industrial consolidations have not impeded technical progress. On the other hand, they have been among the foremost leaders in experimenting with and introducing time-saving methods of production."

In matters of utilisation of existing plant and machinery also, combination seems to stand at greater advantage over separate competing concerns. For, in so far as they can pool orders from various customers and know beforehand the nature and extent of demand, they can control not only output and prices but also can utilise the existing plant and machinery to the maximum extent and thereby reduce the fear or loss due to obsolescence which stands so heavily in present-day industrial world. This, to a great extent, reduces their capital requirements in so far as the fullest utilisation of a particular plant or machinery is possible before new installation is called for.

The problem of efficiency and management is not one to be considered here. Suffice it to say that the problem of management, though difficult and complicated, is by no means insoluble. In matters technical, the difficulties are exaggerated; for, in any concern, the technical work is nowhere infinite but is distributed among a number of units and in each unit there is further subdivision. The problem of coordination is of course there. But that too is not very difficult; for, sometimes the work of each unit is complete in itself. In those cases where coordination of technical work over the whole concern is to be undertaken, there is a certain limit beyond which the expansion of combination would, under certain conditions, be uneconomical. In matters of general management and financial control, coordination over the entire concern is necessary; to a theoretician this seems to be a difficult problem. But if we look at a concern like the General Motors in America, whose organisation comprises some eighty companies all branching out in unrelated lines. On the authority of big businessmen we can say that there is no limit imaginable to which a business concern under proper guidance cannot expand (cf. Sergant Florence, 'The Logic of Industrial Organisation').

In matters financial, the claim very often put forward that monopoly facilitates economy in this matter also does seem valid to a considerable extent. So far as the shareholders go, the shares of a consolidated concern have a greater attraction in view of the stability of the concern. A policy of profit stabilisation can be carried out more successfully in case of such a concern and this also raises them in the estimation of the investing public. As regards financial achievements of combinations over independent concerns, opinions however differ; but investigations in

American business show that, though not absolutely, but from historical standpoint, combinations have, on average, achieved a greater success, from the beginning of the present century, over independent concerns and if the rate of progress is maintained,—and there is no reason why it should not,—it will outstrip the independent concerns in the near future.

* * *

In India, combination has assumed not so much the shape of evolution as of organisation of combination in this line or that according to the exigencies of circumstances. But the most familiar type of combination that attracts the notice of even a casual observer of Indian business situation may be termed as financial integration as a result of the existence of the managing agency system. The integration has taken two forms—integration in the same line and integration in different lines. The cotton mills of Bombay and Ahmedabad are an example of the first variety. In these two centres, a managing agency firm looks after several cotton mills, although in Ahmedabad the number of mills under a single managing agent is, as a rule, fewer than in Bombay. This type of combination resembles to some extent horizontal combination, though not so rigid and consolidated in character as the latter is to be found in the western countries.

Turning, next, to the second variety of financial integration, *viz.*, combination of firms in different lines under one managing agent, it may be noted that it resembles neither the vertical nor the horizontal type. It is of course true that under pressure from the managing agent, two firms working in the same line have combined together as happened in the case of the Buckingham and Carnatic Co. Ltd., Madras; but the problem does not end there and it is found that the same managing agent may have interest in some other lines. A list of some managing agents working in different lines is given below which will give an idea of the number of undertakings under each firm. The list is not exhaustive but considers only a few important managing agency firms in this country. They stand as follows in the year 1942-43 :

Name of managing agency firm	Railway	Jute	Tea	Coal	Cotton	Sugar	Engineering	Miscellaneous
Andrew Yule & Co.	...	11	14	10	...	1	...	9
McLeod & Co. Ltd.	6	6	4	...	...	...	1	...
Martin & Co.	7	...	...	4	...	...	1	1
Dalmia Jain & Co. Ltd. ...	1	...	...	...	...	1	...	2
Jardine Skinner & Co. ..	...	4	5	1	...	...	...	2
Balmer Lawrie & Co. ...	...	...	...	1	...	...	4	3
Gillanders Arbuthnot & Co. ...	2	2	6	1	...	...	...	3
Shaw Wallace & Co. ...	..	...	6	6	1	...	...	2
Kilbwen & Co.	...	...	7	3	...	...	...	...
H. V. Law & Co. Ltd. ...	...	...	...	5	...	...	...	1
F. W. Heilger & Co.... ...	...	2	...	6	...	...	...	1
Anderson Wright & Co. ...	..	1	...	2	...	1	...	...
Bird & Co.	...	8	...	2	...	...	1	5
Macneill & Co.	...	2	...	5	...	...	...	1
Karam Chand Thaper & Bros. Ltd.	...	...	...	1	...	1	...	1
Tata Sons Ltd.	...	...	...	...	4	...	1	2
Birla Bros. Ltd.	...	1	...	...	2	...	...	2
Kettlewill Bullen & Co. Ltd. ...	...	3	...	..	2	...	...	...
Killick, Nixon & Co.... ...	...	...	...	...	1	...	...	1
Begg Dunlop & Co. Ltd. ...	...	4	10	...	...	...	...	...
Duncan Bros. & Co. Ltd. ...	...	1	24	...	...	...	...	...
James Finlay & Co. Ltd. ...	...	1	1	...	...	2	...	...
Begg Sutherland & Co. Ltd. ...	...	...	...	...	...	6	1	...

Some people have found it difficult to explain this peculiar form of integration, because they say that they do not find its prototype in any other country. That is of course true to some extent. But in certain respects it resembles the system prevailing elsewhere. Take for example the new line of amalgamation movement in the U. S. A. where the same concern is managing and financing so many different lines. And from the standpoint of the managing agency house, our system resembles that prevailing in Japan. In that country financial power has been mainly concentrated in the hands of a few great corporations under the aegis of families, such as those of Mitsui, Mitsubishi, Yasuda and Sumitomo, to name the most outstanding of these families. They may compare very well with the Houses of Tatas and Birlas. It must at the same time be admitted that the concentration of financial power is not so very great in this country as in Japan.

The circumstances leading to the lascendancy of the financial capitalist have been different in these two countries. So far as Japan is concerned, in the earlier stages of industrialism, government acted in the role of entrepreneur, and after the concerns had stood on their own legs, they were handed over to the private initiative, which, of necessity, was represented by these big houses. Smaller industrialists were, of course, by no means rare. But in the years following the great war and particularly since the thirties, the great capitalists using the financial institution under their own control, have built up an ever-expanding complex of activities. In this country, owing to the political turmoil prevailing, no indigenous capital was forthcoming to trade and industry for long. A beginning was made in this respect by non-Indian firms in the eastern parts of India where they acted as company promoters and afterwards owners and financiers. In the cotton industry of Bombay and Ahmedabad, Indian managing agency firms came forward. The financial capitalism started in this way and, it must be admitted, has played a very important role in the commercial and industrial development of this country.

The financial integration under the managing agency system has assumed diverse forms. Thus it has been found that surplus funds of a concern are often deposited with the managing agency firm at some rate of interest, the firm then having full discretion in the use of this money either in its own business or in another concern under the same

managing agency. Sometimes these funds are permanently invested in allied concerns, and sometimes they are loaned on short-term accounts. Funds are sometimes raised on the credit of one concern and till they are actually needed or employed, they may be utilised for some other purpose by the managing agent, or lent to a concern, under the same managing agency, other than that for which they were raised. Thus it was revealed at the time of the Tariff Board investigation of 1927 on cotton textile industry that the balance sheets of many mill companies in Ahmedabad contained large borrowings on the one side and large loans lent out at interest on the other. The practice tended to grow during the years of depression when the managing agents became busy over the protection of the concerns under them. Whatever may be said against this system from the standpoint of shareholders of sounder concerns and also from the standpoint of economic theory and conception of submarginal firm, it must be admitted that it was because of the managing agency system and financial integration arising therefrom that the cotton mill industry of this country was able to face the bad days of depression, but for which many a concern would have to be liquidated thus giving a great shock to the rising investing class in this country. It is easy to argue that "reserves of several well-established mills have in this manner been frittered away by lending them to others newly started by the same managing agents" ; but in a country and at a time when no sufficient funds are available from the investing public nor are there any institutions for supplying the long-term financial assistance to newly started concerns, this sort of financial integration, though not sound from the standpoint of sound company finance, is imperative in existing circumstances, and so long as the integrity of the managing agency system is not doubted, there is no scope for any apprehension in this type of investment. The merits and demerits of a system are to be judged from the results achieved and not simply from a principle that may have been formulated under some peculiar circumstances. And when we look to the years of depression, we cannot but say that the combination of concerns under the same managing agent has been of immense help.

Financial integration is not peculiar to the cotton mill industry alone ; even in the jute mills, another very important industry of the country, this sort of integration

is to be found. In one respect, however, the case of financial integration in jute mills differs from that in cotton mills in Bombay and Ahmedabad, *viz.*, that inter-company investment in jute mills was undertaken as a result of the special resolution passed by shareholders in general meeting. This shows that even the shareholders realised the necessity and approved of the measure of inter-company investment. Although no such special resolution is to be found in many cases, though not in all, in Bombay and Ahmedabad, yet to suggest that the action of the managing agents was arbitrary in character would go beyond the limits of propriety. In view of the closer personal relation of the managing agents in Bombay and Ahmedabad with concerns under them and with the shareholders no necessity was perhaps felt for a special resolution.

This financial integration, in its turn, has led to a greater degree of cooperation among the different units than would have been possible had these concerns been under the management of separate boards of directors. Even then the degree of cooperation has not been sufficient in view of the development in this respect in western countries and also in view of the exigencies of circumstances prevailing since the depression. It is peculiar that when other countries were promoting a greater degree of cooperation in matters commercial and industrial, the Indian Companies (Amendment) Act of 1936 incorporated provisions which were adverse to financial integration as prevalent in this country. Thus, according to one provision, loans to managing agents of companies other than private companies which are not subsidiary companies of public companies are forbidden. In the same way, loans to or by companies under the same management is prohibited. Without the previous consent of the board of directors, given unanimously, the purchase by the company of shares, stocks, debentures or other securities of companies under the same managing agency is forbidden. The managing agent can in no case issue debentures and cannot invest the funds of the company without the approval of the directors. Whether these provisions, apparently sound, would prove beneficial in actual operation, particularly in times of depression, only time can show. But it must be admitted that the efficiency of business management depends to a considerable degree upon the extent to which the persons in managerial position enjoy unhampered freedom to pursue a definite policy. The managing agency system

has enjoyed a great advantage in this respect. In a country where no sufficient supply of managerial ability is available and where no sufficient capital is also available, the managing agency system has supplied both and in matters administrative, has secured a high degree of efficiency and integration. The system in its administrative aspect has led in many cases to group-purchase, group-sale and uniformity in working and administrative control. In matters financial, the smaller or newer concerns under the same managing agent have not faced any greater difficulty than the bigger ones, since in both cases, it is not their individual integrity and credit but most of the managing agent that have been the sole determinant. In the words of Lokanathan, "Without any formal combination or amalgamation and without losing their independent legal and functional existence, these various units are enabled to realise some of the economies, if not of large-scale production, of large-scale organisation."

Having studied the most predominant type of combination in India, we should now devote our attention to combination or amalgamation in different lines which have arisen as a result of the exigencies of circumstances. To consider the field of banking first, here, although there are the " Big Five," *viz.*, the Central Bank of India, the Allahabad Bank, the Bank of India, the Punjab National Bank and the Bank of Baroda, like the Big Five in England, yet their development was not on the same lines as in the latter country. In England the rise of the Big Five was the result of bank amalgamation and consequent concentration of resources in their hands, followed by the development of a network of branch banking. In India, however, the most noteworthy feature is the concentration of resources to a large extent in the hands of the Big Five, side by side with the increase in the number of banks. The result has been that whereas in England, the amalgamation movement has swept away the efficient concerns, in India, however, in spite of the concentration of resources in the hands of a few banks, the increase in the number of banks is going on and as a result of the wartime boom and liquidity in banking situation, the development of banking, particularly branch banking, has gone so far that a period of depression and deflation, which would of necessity follow the war, unless timely measures are taken, would prove disastrous to banking business. For, by this time some of the mofussil centres seem to be oversupplied

with banking facility and there is little reason to expect that these institutions would be adequately fed by the trade and commerce of the region involved.

In this field amalgamation has taken place only in a few cases. Thus in 1923 the Central Bank of India absorbed the Tata Industrial Bank. The Lloyds Bank Limited absorbed in 1923 the wellknown eastern business of Cox & Co., and of Henry S. King & Co. The Allahabad Bank has been bought out by the P. & O. Banking Corporation Ltd., which in its turn was purchased by the Chartered Bank of India, Australia and China. Leaving aside these three cases, there has been no amalgamation in this field worthy of name, while at the same time the need for co-operation among the Indian joint stock banks is very great. This is not only essential for the sound development of banking, and also for making preparation to face any unforeseen crisis, but also for meeting the competition of exchange banks which are now to an increasing extent taking to inland trade financing. This competition would increase in intensity in postwar years when the need for meeting the strong competition from well-established exchange banks would be very great. The Banking Bill that is being circulated aims at increasing the paid-up capital and reserve with a view to strengthen their position against crisis. Now it is for the banks to combine and capture the inland trade and, if possible, foreign trade financing, so that in post-war years they can hold their own against competition from foreign exchange banks. In this connection it may be noted that the Central Banking Enquiry Committee and the Foreign Experts associated with it suggested the formation of an All-India Bankers' Association, one of whose aims would be the laying down of principles and conventions calculated to prevent unhealthy competition; but the Central Banking Enquiry Committee was against the imposition of any restriction on the branch activities of the exchange banks nor did they take with favour the suggestion put forward by some witnesses of confining the activities of the branches of exchange banks to port towns. Whatever that may be, the suggestion did not materialise; but in changed circumstances of today and in anticipation of developments that would take place in postwar years, it is high time for Indian concerns to consider and reconsider the question of co-operation, if not of amalgamation.

The position in insurance business is slightly better.

Many insurance companies have already amalgamated with a view to strengthen their position. The following list from the Indian Insurance Journal, compiled by Roy in his 'Life Insurance in India' is self-revealing :—

	Name of Amalgamating Company	With which Company Amalgamated
1	Taj Insurance Co. Ltd., Lahore ...	Star of India Insurance Co. Ltd., Lahore.
2	Goodluck Insurance Co Ltd., Lahore	Free India General Insurance Co. Ltd., Cawnpore.
3	Indo-Asiatic Insurance Co. Ltd, Ajmer	
4	Hindusthan Security, Allahabad ...	
5	Modern India Life Assurance Co. Ltd., Calcutta	Aryya Insurance Co. Ltd., Calcutta.
6	Searchlight Insurance Co. Ltd, Lahore	
7	Premier General Assurance Co. Ltd., Patna	
8	Jatiya Kalyan Insurance Society Ltd, Calcutta	Federal India Assurance Co. Ltd., Delhi.
9	Great Orient, Lahore	
10	Providential Insurance, Aligarh ...	
11	Unity Insurance, Lahore	
12	Glory of India, Lahore	
13	Great India, Calcutta	
14	Hindustani Bima, Lahore ...	
15	Central Life, Lahore	
16	Equity Insurance Co. Ltd., Lucknow	All-India United Assurance Co. Ltd, Lucknow.
17	Agarwal Insurance, Ajmer ...	
18	Victory Insurance, Lahore ...	Sunshine Insurance, Lahore.
19	Frontier Insurance, Peshawar ...	
20	Meenakshi Insurance, Madras ...	

	Name of Amalgamating Company	With which Company Amalgamated
21	Central Mutual Life Assurance Society Ltd., Bombay	Prabhat Insurance Co. Ltd., Bombay.
22	Prabhat Insurance Co. Ltd , Bombay	Forward Assurance Co. Ltd., Bombay.
23	Modern Insurance Co. Ltd., Bombay ..	
24	Aryan Life Assurance Society Ltd., Bombay	Champion General Insurance Co. Ltd., Bombay.
25	All-India Security Life and General Assurance Co. Ltd., Bombay ...	Worldwide Assurance Co. Ltd., Bombay.
26	Great Peninsular, Madras ...	Bharati Bima, Benares.
27	Genuine, Calcutta	Aryasthan, Calcutta.
28	United National Insurance Co. Ltd., Delhi	Sterling Insurance Co. Ltd , Delhi.
29	Hukumchand Life Assurance Co. Ltd., Calcutta	
30	Ganesh Insurance Co. Ltd., Madras ...	New Guardian of India Life Insurance Co. Ltd., Madras.
31	Hindusthan National, Lahore ...	Napier, Calcutta.
32	Universal Protector, Calcutta ...	Bihar National, Patna.
33	United Assurance, Calcutta ...	Eastern National, Calcutta.
34	Bengal Mercantile, Calcutta ...	
35	All-India Railway Men's Benevolent Fund, Nagpur.	Social Life Insurance Co., Nagpur.
36	Nag Insurance Co. Ltd., Nagpur ...	Federal India, Delhi.
37	Social Life Assurance Co. Ltd., Nagpur.	Associated Insurance Co. Ltd., Nagpur.
38	Forward Assurance Co. Ltd., Bombay	Federal India Assurance Co. Ltd., Delhi.

Till 1927, there was no association of an all-India character in the field of insurance business. In that year, the Indian Life Assurance Offices Association was formed. The Association immediately took up the question of payment of unduly high rates of commission to agents and of rebating and passed strong resolutions condemning both and suggesting to the member concerns to discourage these practices. It is interesting to note that the Insurance Act of 1938 has placed restriction on the amount of maximum commission that may be paid to agents and has made rebating illegal. A few years back the same Association tried to promote a Reinsurance Pool of existing companies. It was suggested that the companies would reinsure the excess over their retaining limit, which would be fixed for each company. This excess would be distributed among the remaining offices in the proportion of each remaining company's retention limit to the total retaining limit of the rest of the companies. This proposal, however, did not materialise owing to the unwillingness of the bigger concerns to reinsure with the comparatively weaker ones and also because of the lack of standardised rates and policy conditions.

Turning next to the extractive industry, viz., coal mining, the need for combination here is very great. This aspect was specially emphasized by the Coal Enquiry Committee (1937) in their report. The Committee has clearly shown how lack of co-operation is definitely working against the interest of coal trade. In the words of the committee, "Voluntary restriction of output, with agreed-on minimum prices, has failed to materialise because the coal trade cannot combine even for obviously mutual benefit, while compulsory restriction of output, with authoritatively fixed minimum prices, has been rejected by the Government. Consequently, as a matter of economic necessity, production costs have been reduced to the subsistence or survival level, repairs and renewal of plants are limited to the lowest point compatible with safety and efficiency, depreciation cannot be provided for adequately and new developments are comparatively rare." How very inadequate this amalgamation has been can be understood from the following list of amalgamations :—

Name of the Amalgamating Company	With which Company Amalgamated
Girimint Coal Co., Ltd. ...	Bengal Coal Co, Ltd.
Bhaskajuri Coal Co., Ltd. ...	Burrakur Coal Co., Ltd.
Central Jherria Coal Co., Ltd. ...	Burrakur Coal Co., Ltd.
Jumoni Coal Co., Ltd.	Burrakur Coal Co., Ltd.
Lutchipore Coal Co., Ltd.	Burrakur Coal Co., Ltd.
Nowaghur Coal Co. Ltd.	Burrakur Coal Co., Ltd.
Reliance Coal Co., Ltd.	Burrakur Coal Co., Ltd.
Teetulmuri Collieries Ltd. ...	Burrakur Coal Co., Ltd.
Aldih Coal Co., Ltd.	Equitable Coal Co, Ltd.
Bansdeopur Coal Co. Ltd. ...	New Bansdeopur Coal Co., Ltd.
Damuda Coal Co., Ltd.	New Beerbhoom Coal Co., Ltd.
New Kendah Coal Co., Ltd. ...	New Beerbhoom Coal Co., Ltd.

Not only was there no adequate amalgamation of concerns in coal mining, on the contrary, between 1914 and 1923 the number of coal mining concerns increased in India by 322 or about 50 p. c., while production rose from 16 to 20 million tons. This in itself is sufficient evidence of the fact that a large number of small companies came into existence during this period and increased the precariousness of the coal trade. In England, the tendency was in the reverse direction and the number of coal mines was steadily reduced from 2861 in 1927 to 2075 in 1935, the majority of the mines closed being small ones. The result of the rise of these small companies in India has been the "fragmentation" of bigger mines, some of which are "leased out in small strips involving great waste of coal in barriers, increasing the danger of fire spreading from one property to another and generally making safe and economical working impracticable". The Coal Enquiry Committee (1937) was so much impressed by the waste involved that it recommended that "the Statutory Authority should be em-

powered to arrange voluntary amalgamations if possible and then proceed to compulsory amalgamation if the owners will not come to terms."

In the coal trade, since the passing of the Coal Grading Board Act of 1925, a sort of "forced trade agreement," if we may say so, has come into existence, not so much for standardising any trade practice as under a trade agreement, but for standardising the product.

The story of the salt trade from the standpoint of combination is one of domination and rate war by a combine of certain foreign concerns. The activity of this association is confined to the Eastern Provinces of India, particularly in the Calcutta market. In view of the fact that the Eastern Provinces of Bengal, Bihar, Orissa and Assam are, for climatic reasons, unable to produce sufficient salt and have therefore to depend on import. Even as early as 1903, the introduction of salt was followed by a noticeable reduction in price. A similar thing was repeated when the Indo-Aden Works first commenced to import salt towards the end of 1911; for, the price of Liverpool salt came down from Rs. 71 to Rs. 41 for one hundred maunds. Attempts at excluding the newcomers from the salt trade and to stabilise the prices at a high level have often been followed by informal agreement between manufacturers or importers and sometimes formal associations have also been formed, *e.g.*, in 1911 and 1918. A third combine came into existence in 1927 and is known as the Salt Importers' Association of Bengal. It comprised as its members the following concerns :—

(1) The Salt Union of Liverpool, through its agents, M/s Turner Morrison and Co., Calcutta.

(2) The Union Salinera de Espana of Barcelona, through its agents, M/s Turner Morrison and Co., Calcutta.

(3) The Societa Italiana pure Saline Eritree of Rome, through its agents, M/s Turner Morrison and Co., Calcutta.

(4) Hamburg Salt Interests, through their representatives, M/s Lionel Edwards Ltd., Calcutta.

(5) The Port Said Salt Association, Ltd., through its agents, M. Grezoux, Calcutta.

(6) Angostine Burgarella Ajola of Aden, through its agents, M/s Grahams Trading Co. Ltd., Calcutta.

(7) Indo-Aden Salt Interests, through their agents, M/s A. & J. Lalljee, Calcutta.

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The immediate effect of the formation of this combine was to maintain prices at an unduly high level throughout 1927 and for the greater part of 1928. Meanwhile the situation, so far as the indigenous production of salt was concerned, had slightly improved owing to the granting of temporary protection, though at cautious rate, and the Indian producers urged, in a conference held at Simla, that if protection was continued over an adequate period, they would be able to supply the Indian market. This was too much for the Aden interests who started a fierce rate cutting war, which was followed by dumping of East African Salt by Italy. It is peculiar that the Government also reduced the import duty at this junction with the result that the Indian industry was on the verge of total collapse in 1933. Hardly a comment is necessary on Government policy. Ultimately in 1935, on an old recommendation by Tariff Board made in 1930, a Salt Marketing Board was formed, composed of Indian and Aden producers, the object being the elimination of foreign imports and regulation of Indian imports. For studying the fluctuations in the trade and for co-ordinating supply and fixing the quotas, a Control Committee was formed. Slightly less than 50 p. c. of the quota went to the Aden group and the rest to the Indian group of producers. Thus the whole trade was divided between two groups of producers on the basis of quotas fixed by the Control Committee.

The oil industry of India is dominated by a combination, known as the Kerosene Pool, which in its turn is dominated over by one concern, *viz.*, the Burmah Oil Company. The Pool consists of the following companies :—

(*a*) The Burmah Oil Company.

(*b*) The Royal Dutch Shell Group,

(*c*) The British Burmah Petroleum Company, and

(*d*) The Assam Oil Company.

In accordance with the maximum price policy of the dominating company, 1,95,000 tons of inferior oil, contributed by the member concerns at some agreed proportion on the volume of production of each concern, is sold to the Pool at a fixed price. The price paid by the Pool to the contributors is fixed every six months on the basis of following factors :— (*a*) current price f. o. b. American Gulfport, (*b*) transport charges, (*c*) import duty, (*d*) profit at 10 p. c. on (*a*) and (*b*), and (*e*) storage. This oil received by the Pool from different

contributors is mixed before sale and they are sold at prices which will cover the price paid to the contributing companies, but at the same time maintaining difference between the prices of inferior and superior quality of oil. Thus the object of the Pool is twofold—to mix the supplies of inferior quality of oil and sell it and to fix the price for this oil at a level which is profitable. The Pool, and in fact, the dominating concern, *viz.*, the Burmah Oil Company, have so great an influence that even concerns which stood outside the Pool, *viz.*, the Standard Oil Company and Indian concerns like Indo-Burmah Petroleum Company, have also followed the price fixed by the Pool. For, so far as Standard Oil Company was concerned, the factor of distance as to the sources of supply and so far as the Indian firms were concerned, the negligible proportion of their output made competition with the Pool impossible and brought them into line with the Pool.

Now we shall pass over to some of the manufacturing industries of India in order to see how far combination as a form of business organisation has affected them. To take up the premier industry of India first, here, leaving aside the financial integration already studied, amalgamations in proper sense of the term have not been very many. Some of them can be seen in the following chart:

Amalgamation in cotton industry.

Amalgamating company	With which company amalgamated
Ahmedabad Jubilee Spinning and Manufacturing Co. Ltd. (by purchase)	Ahmedabad Manufacturing and Calico Printing Co. Ltd.
Kaiser-i-Hind Woollen, Cotton and Silk Mills Co. Ltd. (by purchase)	Bangalore Woollen, Cotton and Silk Mills Co. Ltd.
Coral Mills (19[illegible]4) Tinnevelly Mills (1927) Pandyan Mills (1929)	Madura Mills Co. Ltd.

It is interesting to note that when the postwar boom gave way to slump, the leading mill agents in Bombay considered the possibility of amalgamation. A scheme was also prepared. The Tariff Board of 1932 gives the following

description of the scheme. A scheme for the re-organisation of the industry in Bombay on the lines of the Lancashire Cotton Corporation was put forward by some of the most prominent millowners in the city early in 1930. Under this scheme no less than 34 mills under seven managing agency firms were to amalgamate with the object of :—

(*i*) Standardisation of products ;

(*ii*) Re-organisation of qualities so that single types or ranges of yarn or cloth might be allotted to individual mills ;

(*iii*) Concentration of purchase and sale by single well-defined units ;

(*iv*) Avoidance of duplication of work ; and

(*v*) Elimination of uneconomic machinery.

Each mill was to be valued and taken over by the merger corporation at its present-day price paid in ordinary shares; its unsold stocks were to be paid for in cash and nothing was to be paid for goodwill. The control of the corporation was to be vested in a Board of Directors with working committees to carry out the following duties:—

(*a*) Purchase of cotton ;
(*b*) Sale of yarn cloth ;
(*c*) Purchase of machinery and stores ;
(*d*) Management of mills ;
(*e*) Arrangement of finance; and
(*f*) Organisation of research and statistics.

The corporation was to be financed by a loan from the Imperial Bank of India to the full extent of its liquid assets and by debentures. The project, however, did not materialise, possibly because it was "too ambitious a venture." But it is interesting to note that joint action between some mills on certain matters has been possible and has proved beneficial. The Bombay Textile Labour Enquiry Committee in their Report have noted some of them. Thus, the Bombay Millowners' Association was able to secure a reduction in power costs from ·725 of an anna per unit in 1926 to ·35 of an anna in 1939, as a result of the negotiation with the Tata Hydro-Electric Agencies Ltd. The Association also succeeded in organising the insurance of risks

arising out of the application of Workmen's Compensation Act (1923) through the Millowners' Mutual Insurance Association Ltd., which has now, after meeting all claims, accumulated a fairly considerable surplus fund. Substantial savings have been made by Ahmedabad mills as a result of a joint purchase of machinery in 1931-32. Leaving aside these matters, the cotton mill industry has not seen any amalgamation. The amalgamation scheme already noted did not find favour either with the Tariff Board of 1932 which was of opinion that better results were likely to be attained by economies accruing from close personal attention, or with the Bombay Textile Labour Enquiry Committee which was too much obsessed by the considerations of economic unit; but in the changed situations of postwar years, when there will be acute competition from the British cotton textile industry, some such scheme of amalgamation would be not a matter of choice but one of necessity. It is no use arguing that the Bombay cotton textile industry is imbued with the spirit of individualism; for, this spirit cannot be of greater intensity here than in Lancashire at one stage. If, for self-protection, Lancashire had found it necessary to form a cotton corporation, the necessity is all the more great in India not only for protecting home market, but also for retaining the new markets in Asia and Africa.

If amalgamation in cotton textile industry was only a paper plan, in jute mills there has not been even such a thing. But in one respect the jute mills are better situated in view of the fact that the working conditions for all of them have been determined from time to time by a central organisation which has a sufficient hold on the industry. In considering the different types of combinations we remarked that experience has proved that simple agreements are more permanent than so-called permanent combinations. The validity of this assertion is well proved by the working of the Indian Jute Mills Association which started its career in 1886. From time to time the member mills—and almost all mills except the Hooghly and Serajgunge were members—entered into agreement for restriction on hours of work—not in consideration of labour welfare, but for adjusting supply to market demand—and closing down a certain percentage of the looms. The agreement was renewed according to the situation. In 1932 the Association entered into agreement with five principal mills outside the Association whereby these

mills undertook to restrict the working hours. Thus it is clear that the aim of this simple combination is to restrict the output of member mills in such a way as to maintain prices.

Unlike in cotton and jute industries, the paper industry of India is characterised by a greater degree of combination. The policy of the mills belonging to the Indian Paper Makers' Association and also of those working in conjunction with it has been to combine for the purpose of price fixation and for the allotment of contracts with the Central and Provincial Governments, which represent 20 to 25 p.c. of their total production, according to an agreed arrangement among themselves. This combination was facilitated because up to recent times there was a practical monopoly of the trade between the three older mills, *viz.*, the Titaghur Paper Mills Co. Ltd., the Indian Paper Pulp Co. and the Bengal Paper Mills Co. The new mills that have of late come into existence have either joined or are cooperating with the Association. The combination has enabled the mills to maintain prices at a level slightly below the level of prices quoted for imported paper of similar quality; this has also enabled them to prevent the cutting of rates below an agreed level.

A greater degree of combination characterises the sugar industry in India. When we consider each independent concern, we find the existence of vertical combination in this industry. Some of the concerns not only manufacture sugar but also possess the supply of raw material, *viz.*, sugarcane, in so far as they have their own fields. Thus, the Buland Sugar Co. Ltd., conjointly with the Raza Sugar Co. Ltd., owns a subsidiary concern, *viz.*, the Agricultural Company, Rampur, and owns and operates an extensive Light Railway System in Rampur State which facilitates the supply of sugarcane to the factories. Some of the mills have their own distillery. Thus the Cawnpore Works Ltd. have a *gur* refinery and a distillery where country spirit, denatured spirit, rectified spirit and commercial alcohol are manufactured. All the more remarkable is the organisation of the Deccan Sugar and Abkhari Co. Ltd. which combines also the distributive side of trade. It owns a sugar mill and distillery in Madras where palmyra jaggery is refined and various kinds of portable and non-portable spirit are produced. The factory does not crush cane. A confectionary is attached to the sugar factory and a carbonic acid gas

collection, purification and compression plant adjoins the distillery. The company has a large number of agencies, sub-agencies and depots along the Coromandal Coast and inland for the purchase of palmyra jaggery and sale of sugar, spirit and other products. Other examples of vertical combination in sugar industry may be cited; but we have taken the most representative examples.

So far as the sugar industries of U. P. and Bihar are concerned, the Sugar Syndicate represents a central organisation for them. When the industry was passing through a crisis, the organisation was formed by the Indian Sugar Mills Association to assist in the carrying of stocks over the remainder of the season. The fixation of minimum selling limits and quotas of supply for 92 factories which had joined the Syndicate had the effect of steadying the prices. Be it noted that this organisation was formed to meet an emergency. It is essential that some such organisation should be made permanent not only in the sugar industry but also in other industries wherever there is the danger of overproduction as compared with the existing and, to some extent, potential market (cf. the recommendations of the Bombay Textile Labour Enquiry Committee on cotton industry), and in order that it may be successful, it must have, direct or indirect, support from the Government (cf. the following observation of the Tariff Board (1938) on sugar industry: "We understand that the first central selling organisation formed in Java in the year 1918 known as the United Sugar Producers' Association failed on account of a similar lack of co-operation and the eventual defection of some of its members. In 1932 the intervention of the Government was necessary for the formation of a new organisation.")

The cement industry of India presents the most perfect type of horizontal combination. The formation of the combination was the result of protracted experimentation. The industry which was in infant stage in 1914 expanded to a considerable extent as a result of the great war but was all on a sudden faced with competition, particularly from the U. K , as a result of which, it was in a state of impending collapse by 1924. The hesitating attitude of the Tariff Board facilitated the refusal to grant protection by the Government to this infant industry and many firms collapsed. However, as a measure of self-protection, the surviving firms formed the Indian Cement Manufacturers'

Association in 1926. The first step taken by the Association was the fixation of selling prices ; in all other respects, including sale and obtaining of maximum possible business for itself, each firm was fully autonomous. The Association also organised a joint sales service, called the Concrete Association of India, in order to educate the public and also to provide free technical aid as to the uses of cement. The year 1930 saw the establishment of a Cement Marketing Company of India, the object of which was to take over the control of sales and distribution for almost all the manufacturing companies in its membership, these companies working on a system of quotas based on the stated capacity of each company. These organisations were to some extent successful, but the constitution of the marketing company presented some difficulties. Even the quota system did not work smoothly and "it was often necessary to transport cement from one particular factory to an area which would have been more economically served from another factory near the area". Hence a complete fusion was favoured and effected in 1936 when the Associated Cement Companies Limited came into existence. The A. C. C. took over by amalgamation the business and assets of the undernoted concerns which went into voluntary liquidation :

(1) The Indian Cement Co. Ltd.
(2) The Katni Cement and Industrial Co. Ltd.
(3) Bundi Portland Cement Ltd.
(4) The Okha Cement Co. Ltd.
(5) The Gwalior Cement Co. Ltd.
(6) The Punjab Portland Cement Ltd.
(7) The United Cement Co. of India Ltd.
(8) The Shahabad Cement Co. Ltd.
(9) The Coimbatore Cement Co. Ltd.
(10) The Dewarkhand Cement Co. Ltd.
(11) The C. P. Cement Co. Ltd.

Thus the rise of the cement merger in India is simply the result of the threat of foreign competition and unsympathetic attitude of the Government. It is interesting that the dictum that "Tariff is the mother of trust," so much true in America, has been falsified in the case of the cement industry in India.

In miscellaneous industries there are occasionally traces of combination. Some idea of the same can be obtained from the underlying chart :—

Amalgamation in Miscellaneous Companies

Name of the amalgamating Company	With which Company amalgamated
Hukum Chand Electric Steel Works	Bhartia Electric Steel Co. Ltd.
British India Iron and Steel Co. Ltd.	Bhartia Electric Steel Co. Ltd.
Bengal Iron Company Ltd. ...	The Indian Iron and Steel Co. Ltd.
The Cawnpore Woollen Mills Co. Ltd.	British India Corporation Ltd.
The Cawnpore Cotton Mills Co. Ltd.	British India Corporation Ltd.
The Empire Engineering Co. Ltd. ...	British India Corporation Ltd.
Cooper Allen & Co. Ltd. ...	British India Corporation Ltd.
The North-West Tannery Co. Ltd.	British India Corporation Ltd.
The New Egerton Woolen Mills Co. Ltd.	British India Corporation Ltd.

Upto this time we have said nothing regarding the match industry which represents the most obnoxious type of international combination, *viz.*, the Swedish Match Company. Before the first great war, the Indian market was being supplied by Japan, Sweden and some other European countries. During the war years, Japan became the principal supplier of matches but had to yield position to Sweden after the war. The Indian factories numbering 21 in 1928 produced about 12 million gross a year. The Indian factories received some stimulus from the imposition of high import duty in 1922, but it was shortlived in view of the fact that the Swedish Match Company jumped over the tariff wall by the establishment of factories. Thus while Japan was eliminated from the Indian market partly as a result of the import duty of 1922 and partly because of the amalgamation of some Japanese concerns with the Swedish Company, the Indian concerns stood face to face

with this powerful international combine and the Tariff Board knew no method of recommending protection because "in our fiscal law there is no express provision which recognises the method of penalising unfair competition except where such competition arises from the payment of bounties." India was ill-repaid when as a result of rate war and the most objectionable sort of propaganda carried only the Swedish concern against the Indian manufacturers as a class, a large number of Indian companies had to close their doors. Nothing can be more pitiable than this. Tariff has indeed proved the mother of distrust.

No less obnoxious to the interest of Indian trade is the combination of shipping serving, rather disserving, Indian trade. The combination in shipping is known as Ring. As a result of rate war, the first shipping Ring was formed in the year 1875, consisting of the Peninsular and Oriental Company, the British-India Company, and some other lines of London; George Smith & Sons and the City Line of Glasgow; Rathbone Bros. & Co. and T. & J. Harrison of Liverpool. The shipping Ring has stood not only in the way of the development of Indian shipping whose share in the oceanic trade is scarcely 2 p. c., but it has also hampered our trade. The preponderance of foreign shipping even in the coastal trade of India has made the situation all the more precarious. As the Fiscal Commission pointed out more than 20 years ago, the great disparity of rates between the charges on goods shipped from one Indian port to another and those on goods carried between India and foreign countries handicap Indian goods in transmission in comparison with goods from and to foreign countries. This is due to the fact that the steamship companies belonging to different countries grant numerous facilities to the export houses belonging to their own country and it is all the more tragic that the greater part of Indian foreign trade is in the hands of non-Indian export houses.

So far we have studied different industries in order to see how far they have been affected by combination as a form of business organisation and to what extent combination has proved beneficial or otherwise to Indian interest. Now we shall consider another form of combination for which definition has been given by the Indian Companies Amendment Act (1936), I mean, holding com-

pany. It should not however be expected that this form of combination is very wide in India. Unless of course we regard the managing agency firms holding a large proportion of shares in many concerns as holding companies, we cannot say that this form of combination has become very important in India as it has become in America. However, samples of this type are to be found in some industries. In the field of Railway, the Bengal Provincial Railway Company Ltd. owns all shares of Dasghara-Jamalpurganj Extension. In the same way all the shares of the Darjeeling Himalayan Railway Extensions Co. Ltd. are held by the parent concern, the Darjeeling Himalayan Railway Co. Ltd. In the coal mining concerns also, holding company arrangement is to be found. Thus the Burrakur Coal Co. Ltd. became the proprietor of the whole of the shares in Loyabad Coke Manufacturing Co. Ltd., and became the principal shareholder of the Sijna (Jherriah) Electric Supply Co. Ltd. Between December 1938 and August 1940, the Equitable Coal Company Ltd. acquired a large majority of shares of the Aldit Coal Co. Ltd. by the exchange of 35735 ordinary shares of Rs. 10/- each at a premium of Rs. 15 per share. In the cement industry the A. C. C. hold the greater portion of the share of the Patiala Cement Co. Ltd., the entire share capital of the Cement Marketing Co. of India, Ltd., and 40 p. c. of the shares of the Burmah Cement Co. Ltd. In the last mentioned instance, however, the A. C. C. cannot be regarded as the holding company according to its definition given in the Act, since it holds less than 50 p. c. of the shares. (Cf. the definition given is as follows: If a company's assets consist in whole or in part of shares in another company or association so that the amount of shares held by it in that other company is, when accounts are made up, more than 50 p. c. of the issued share capital of the other company or is such amount as would entitle it to have more than 50 p. c. of the voting power in the other company, or if it has power to appoint the majority of directors of other company, it is known as a holding company.)

In the field of distribution *i.e.*, trade proper, we have already noted the existence of a central selling organisation in sugar and cement industries, the latter resembling the selling syndicate in some features. Leaving aside these stray cases, the distributive aspect of business in India is dominated upto this time by individualist spirit. Trade

agreements are however not rare. In India, they may be divided into four groups as follows :—

(1) Chambers of Commerce.
(2) Commercial Associations.
(3) Planters' Associations.
(4) Trades Associations.

(1) *Chambers of Commerce*—The objects and functions of some of the leading chambers of commerce may be noted. The Bengal Chamber of Commerce is an association of merchants, brokers, shopowners, bankers, insurance companies and others. An important branch of its work is the measuring and weighing of most of the principal commodities exported from Calcutta. The Bengal National Chamber of Commerce was started to aid and stimulate the development of commercial and industrial enterprises in Bengal, to protect the interests of all persons trading therein and to promote unanimity and uniformity of practice among the members of the trading community. One of the functions of the Bombay Chamber of Commerce, performed through a Measurement Department is the measurement of exports in the docks prior to loading. The Madras Chamber of Commerce was founded in 1836 with a view to watch and protect the interest of trade, to receive and collect information on all matters of mercantile interest bearing upon the removal of grievances and the promotion of common good, to receive references on matters of custom or usage in doubt or dispute, deciding on the same and recording the decision made for future reference and to form by that and other means a code of practice whereby the transactions by all engaged in it may be simplified and facilitated. The Mysore Chamber of Commerce has been recognised by the Government as competent to issue certificates of origin. The Buyers' and Shippers' Chamber, Karachi, was started to safeguard and promote common commercial interests of the Indian maritime traders in particular.

(2) *Commercial Associations*—The commercial associations are mainly concerned with each particular type of commerce as the names of the associations indicate :—Blanket and Shawl Traders Association, Calcutta ; Calcutta Grain, Oilseed and Rice Association ; Calcutta Hides and Skins Shippers' Association ; Indian Engineering Association, Calcutta, Indian Sugar Mills Association, Calcutta ; Bombay Millowners' Association ; Bombay Piecegoods Native

Merchants' Association; Ahmedabad Millowners' Association, etc., etc. It should not however be thought that all members belonging to the particular trade have become members of the particular association representing it. In a strong wellknit organisation, like the Bombay Millowners' Association, most of the cotton mills have become members; for they realise the advantages of group action in which the Association has a long record of success. Individual employers or traders may have remained outside these Associations, either because they are sufficiently confident in their own ability or because they are very small and negligible and may have refused to fall in line with the policy adopted by these bodies. Compulsory membership would however do no good; but for specific purposes, *e.g.*, uniformity of trade practices and usages, etc., compulsion may be called for, if, say, the association represents a certain proportion of the membership of the trade. In industries like cotton mills which have cropped up not only in different parts of India but also in native states, some all-India association, federating the local associations together, may be of immense help in the matter of adoption of uniform working and trade condition, particularly in native states, where these conditions, owing to the lack of adequate labour liquidation, are rather lax.

(3) *Planters' Associations*—The Indigo Planters' Association, Bihar, was formed as early as 1801 to facilitate correspondence with the Government in the interests of the planters, to safeguard their interests and to deal with applications for the settlement of differences. The successful exploitation of synthetic indigo has driven out many of the planters to some other agricultural occupations and hence the name of the Association was changed into Bihar Planters' Association, Ltd., in 1905. The United Planters' Association of Southern India (Incorporated), Coonoor, was started with a view to promote and protect in all parts of the world the interests of various planting authorities carried on in Southern India, the collection and dissemination of statistics and information and settlement of differences by arbitration. The Indian Tea Association is also one belonging to this category.

(4) *Trades Associations*—These are concerned with trade proper. Thus in the Calcutta Trades Association, membership is confined to retail traders, whether individual, partnership or joint stock company. The Calcutta Import

Trade Association was formed to encourage and secure united feeling and action amongst importers and generally to promote and protect the interests of those engaged in the import trade of Calcutta. One of its main objects is the fixation of points of customs and adopting of uniform forms of contract. The Bombay Trades Association was formed with the object of promoting and safeguarding the interests, general or particular, of the trading community in Bombay Presidency and also of collection and distribution of such information as may protect members of the Association from loss or damage likely to arise in whatever manner. It undertakes arbitration when called upon to do so, collects debts due to members and acts as trustees on their behalf for liquidation, by persons indebted, of debts due to them. The Madras Trades Association was founded with the object of promoting the interest of the trading community of Madras, of furthering the adoption of a more healthy system of trade with reference to credit and of obtaining, as far as possible, accurate information of the position and movements of those dealing with, or indebted to, its members. It undertakes arbitration when necessary, collects debts due to the members and generally acts as trustees for the liquidation, by persons indebted, of debts due to them. All questions relating to hours of business and the fixing of holidays are dealt with by the Association.

Social Control of Business—At a certain stage in its development, social control of business remains not a matter of choice but becomes a matter of necessity. This is true even in countries with so-called laissez faire tradition This, it must be admitted, is due to certain diseases of industrialism and commercialism ; but the diseases are not of the same type for different occupations in different countries at different times. They vary according to the stages in the development of industrialism and commercialism. The diseases in the earlier stages are entirely different from those in more developed stages, and the remedies therefore must, of necessity, be different in character and application. Power has a natural tendency to concentrate ; and financial power is no exception. But this financial power, leading to combinations and monopolies or coming in their wake, though associated with many economies of financing, production and distribution, is not altogether innocent of abuses that sometimes affect so many different classes of people as investors, labourers and consumers.

Different countries have therefore devised measures for the prevention of these abuses.

So far as the exploitation of labour is concerned, the subject constitutes a chapter by itself and it is not our pr esent purpose to take it up. The case of the exploitation of investors and consumers is no less important. The efficacy of some of these measures may be questioned, and rightly and it may be urged that even after ten years after the passing of the Sherman Antitrust Act, the legislation was not successfully enforced. But then partial or total failure in the enforcement of a law should not be made a plea for inaction. One thing must however be noted. The social control of business in a capitalist world where, with the rise of the new industrial and commercial class, its hold on the concrete expression of social authority has been predominant, the adoption and enforcement of measures for the purpose in view have at times been discouragingly slow, a process all the more intensified in India owing to the big gulf that separates the interest of the administration with those of the rank and file.

The intensity of the problem is not the same in all countries but depends upon the degree of development in combination and extent of abuses therein. In India since industrialism and commercialism are in primary stages, social control of business as understood in, say, America, has not started as yet in this country. Besides, monopoly interests are so few that wherever a combination has taken place it has been a result of self-protecting measure rather than a trust protected by tariff walls. Where self-protection is the guiding factor in combination,—as we have seen in the case of the cement industry,—combination is followed by cheapening of products and efforts at their popularisation. Even in the case of other industries, like coal industry, need for combination is very great in the interest of economy in working costs and also in the greater interest of consumers. In those industries where owing to the prevalence of the spirit of individualism, *e.g.*, cotton industry, combination, though necessary, is not yet possible, some measure of common action has become absolutely essential in the changed circumstances of today. Only in cases like the match industry that abuses have taken place and should be removed. Thus far from saying that social control of business should include in its programme measures against combination, we must say that in certain fields at

least combination should be encouraged by direct or moral support of the Government. This necessity today is the greatest in the field of banking.

Whatever may be said against the policy of the Government of India, no one can say that apparently they have been blind to the interest of consumers. All their policies of inaction and half-action have been justified on the ground that the teeming millions of India need the cheapest goods for their subsistence, from whatever sources they may be available, and the theories of absolute and comparative costs in international trade have been of immense help in their formulation of policy. The whole idea behind " scientific " protectionism has been the interest of the millions of agriculturists in India, any sacrifice on whose part for the industrial development of the country has been deemed too much. Industry and trade have suffered, no doubt; but the agriculturist has got cheap goods. Today under the stress of wartime conditions, the consumer feels that he has been cared for too much and the policy of the Government in matters of industry and trade and their negligence of the distinction between the short run and long run interests of consumers have cost the consumers innumerable sufferings and privations. The Smithian school of economists in India who had sung in praise of discriminating protection and laissez faire may feel a bit perplexed; but the man in the street asks, Is it social control of business ?

Social control of business has taken another form, *viz.*, control in the interest of shareholders. It is well known how disabilities have been imposed on managing agents and the rights of the shareholders have been strengthened. But we also know that shareholders are sleeping partners; so in their interest, audit of the company's accounts is compulsory in every country including India. As agents of shareholders, the auditors have power, if they are dissatisfied with the information or explanation given by directors or if they find that the balance sheet does not represent the true position of the company, to report the matter to the members and to qualify their report on the balance sheet. The law has also made some provision in the interest of the would-be investors. It is well known that the prospectus is the invitation to the public to subscribe to the shares. In order that the innocent public

may not be duped, the law has clearly mentioned the details which should be revealed in the prospectus, a copy of which must be furnished to the Registrar before it is issued. So far as the declaration of dividend is concerned, certain restrictions have been imposed by law, *e.g.*, it will not exceed the amount recommended by the Board of Directors and it will not be paid out of capital; but in matters of capital structure of companies other than banking companies, there are certain weaknesses, *e.g.*, too wide a gap between authorised and paid up capital, the ignorant public being duped by the former, which need handling in the interest of shareholders.

In the case of banking companies, the provisions are more far-reaching. Thus managing agency system has been abolished in their case, except when the managing agent itself is a banking company, but even then the banking company cannot be entitled to any remuneration, commission or share in profits. In order to save the shareholders from being duped by a big authorised capital it has been provided in the amendment to the Indian Companies Act, 1944, that the subscribed capital of the company will not be less than half the authorised capital and the paid up capital will not be less than half the subscribed capital. In order that a banking company may not be burdened by borrowed money, the amendment also provides that the capital of the company must consist of ordinary shares only or ordinary shares and such preference shares as may have been issued before the commencement of the Amendment Act of 1944.

But more important is the interest of the investors in the case of banking companies. In their interest also there are certain provisions in the company law with a view to ensure stability. Section 277 of the Companies Act requires every banking company to create a reserve fund by transferring to the said fund out of the profits of every year and before any dividend is declared a sum equivalent to not less than 20 p.c. of its profits until the amount of the said fund is equal to the paid up capital of the company. The said amount shall be invested in Government securities or in securities referred to in section 20 of the Indian Trust Act of 1882 or keep it deposited in a special account to be opened in a scheduled bank. Every banking company shall also maintain by way of cash reserve, in cash, a sum equivalent to at least $1\frac{1}{2}$ p. c. of its

time liabilities and 5 per cent of its demand liabilities. The Amendment Act of 1944 provides that notwithstanding anything contained in section 103, no banking company shall commence business unless shares have been allotted to an amount sufficient to yield a sum of at least Rs. 50,000 as working capital and unless a declaration verified by an affidavit signed by directors and the manager to that effect has been filed with the Registrar. All these provisions safeguarding the interests of share-holders and depositors form part of the Companies Act. The need for a separate banking law was felt long ago and was stressed before the Central Banking Enquiry Committee. It is gratifying to note that already a Banking Bill is under consideration which, when passed, would be, it may be expected, more far-reaching in character from the standpoint of shareholders and depositors.

As in the case of banking, so in the field of insurance, a greater degree of control has penetrated. To prevent the formation and growth of insurance business by mushroom companies, the Insurance Act of 1938 provides for registration of all companies and a substantial initial deposit of Rs. 50,000 in securities to be raised to a total of Rs. 2,00,000 within a stated period. The investment of funds has been restricted and provision has been made for investment of not less than 55 per cent of the life fund and the liability for matured claims, less any deposits made to the superintendent under the Act and loans granted on policies maturing in India and within their surrender values, in the following manner: 25 per cent in Government securities and a further sum equal to not less than 30 per cent of the said sum in Government or approved securities, or securities of, or guaranteed as to principal and interest by, the Government of the U. K.

Combination is associated with two other problems for which also social control of business becomes necessary. These problems are, first, maldistribution of productive resources and, second, uneven distribution of wealth. In the present stage of industrial and commercial development, none of these problems has assumed any mentionable significance. In advanced countries social control in the shape of planning is essential for realising the maximum possible utility by reducing wastes to a minimum. In our country of course we cannot say that there is no mal-exploitation of productive resources, owing to the prevalence of foreign capitalism in most lines. But yet, in

the infant stage that we are, our planning should be in the nature of proper utilisation of available and potential resources for the maximum possible benefit of the children of the soil. As regards the second problem, it must be said that it is neither peculiar to combination or monopoly nor to a particular country but to the present system and ways and means must be devised for reducing this evil of uneven distribution of wealth. Taxation as a remedy is well suited but where industrialism and commercialism are in infant stage, too heavy a rate of tax may break the camel's back. Some economists have gone so far as to suggest the abolition of corporation tax and modification of undistributed profits tax in India. While total abolition of the tax may give unnecessary inducement to declare fat dividends, a better step would be if an alternative provision is incorporated which may stimulate institutional saving, to be invested in the further expansion of the industry and trade.

WAGE AND THE INDIAN COST OF LIVING INDEX NUMBERS

BY

DEBABRATA GHOSH, M.A.

It is an admitted fact today that malnutrition and poverty have sapped the vitality of the nation. The reasons for this are not far to seek. They are the rise in prices of many essential articles to astronomical figures and the scarcity of foodstuffs. High prices, scarcity and the failure of income to reach the level of costs have grievously affected the toiling millions, particularly the lower middle class which forms a decent proportion of them. With such a grim and depressing picture of hardship and suffering ahead it is futile and even ridiculous to talk of Post-War Reconstruction if we do not set afoot immediately a vigorous plan for the regulation of prices on a level with the common man's income and the production, on an intensive scale, of foodstuffs in the present. Any delay in launching the latter plan will mean physical invalidity of the generation of children which is growing up with stunted limbs and a weak physique. Efforts must, therefore, firstly be concentrated on the raising of such agricultural food articles as can easily be harvested and can economically provide some of the much-needed nutrition. Secondly, prices must be controlled effectively. Price control, as we all know, is useless unless the dealers are compelled to sell things at the controlled rate. And lastly, the pay of wage-earners must be increased. But how are we to regulate wages ? Is the increment that has been given to the workers sufficient ? These are some of the questions that I shall attempt to discuss in this article.

Prices of the essential needs of life began soaring high from May 1943, till they reached the undreamt-of height of 300-400 per cent above the normal.

The Government of India and the provincial governments gave some relief to their employees who were in receipt of small salaries, but did not think any relief was needed by those getting more than Rs. 200 per month. The decision of the Government of India to increase the salaries of all government officials in the Rs. 200-1000 group

resulted from an enquiry from Mr. Amery in July 1944 who wanted to know as to what had been done to give relief to government officials in consideration of the high cost of living due to inflation. This explains the selection of July 1 as the date from which the payment of the war allowance to medium-salaried government officials was announced to commence in the centre and in some of the provinces. Some provinces like the C. P. have decided that the minimum war allowance should not be less than Rs. 30. This is quite sensible. But the decision to pay a flat rate of extra 10% shows lack of knowledge of the first principles of economics. Every student of Public Finance knows that a flat rate of income-tax on a percentage basis works hardest on those who are in receipt of small salaries but it does not affect, to that degree, those in receipt of large incomes. Is not the reverse of the method by which income is levied the best criterion for the payment of dearness allowance in these hard times? In other words the higher the rate of pay the lower should be the rate of dearness allowance paid. A flat rate of extra 10% means only Rs. 20 or 25 to officers drawing Rs. 200 or 250, while the increase in the cost of living is admittedly 2½ times of what it was before. A uniform rate of increase affords least relief where it is most needed. Officers drawing salaries of Rs. 200 or Rs. 250 per month are not only unable to save anything, but have been compelled to cut down many necessary items of expenditure, and economise on food and clothing. An extra hundred rupees to an officer in receipt of a thousand rupees per month generally means that he will be able to send a hundred rupees more every month to the bank than he used to do. Hence, like income-tax, dearness allowance should be paid on a sliding scale, if all are to get comparable relief.

Again the unjustifiable increment in pay given to M. L. A.'s and Ministers in some of the provinces calls forth the most bitter criticism. The M. L.A.'s in the Punjab and the Ministers and M. L. A.'s in Assam have got their pay increased by 50 per cent. Thus M. L. A.'s of Bengal have also increased their salaries by 30 per cent. They did not wait for Mr. Amery's enquiry or look up for the Government's decision but helped themselves very generously to the "war allowances". The great difference between the increment considered to be sufficient by the Government for its officials and that of the M. L. A.'s considered to be such by them for themselves is easy to explain. Government officers have not the powers to decide what

increment they should receive due to high prices. The M L. A.'s and Ministers are trustees of public money, so they can help themselves on a generous scale !

Anyway the 10 per cent increment of pay given by the Government is certainly better than nothing and is a commendable act. It has set a good example to most of the employers who were not prepared to pay even that amount and tried to swell their profit thereby. Even this laudable attempt of the Government pales into insignificance when we consider as to what has been done to meet the same situation in Britain and America. In Britain, the cost of living index number has risen by 33 per cent from what it was in 1939. To compensate for this, wage rates are now 45 p.c. higher than what they were in 1939. So the average man is better off by 12 p. c. even after five years of war. In India the cost of living has risen by 130 p. c. but wage-earners have been given an increment of 10 p. c. only. From January 1, 1944, Government pensions in Britain have been given the following increases :—Pensions not exceeding Rs. 400 per month—10 p. c. Exceeding Rs. 400 but not exceeding Rs. 600 per month—7½ p. c. Again in Britain, to maintain food at the (controlled) price level fixed by the Government, H. M. Government has spent large sums in subsidies to farmers and other growers of food. In 1940, £ 70,000,000 was paid to food-growers, so that they might be enabled to sell their produce at the controlled price. In 1941 the amount paid in subsidy was £ 141,000,000—just double of what was paid in the previous year. In 1943, it rose to £ 190,000,000. The figure for 1944 is not yet known but is bound to be larger still.

But the dangers of inflation have been best controlled and checked in America by effective rationing, price control and price ceilings. Between May 1941, and May 1942, when the first general maximum price regulation was imposed, the cost of living rose 12.7%. In the next 12 months, between May, 1942 and May, 1943, the cost of living rose only 7.8%. Between May 15 and June 15 of this year the cost of living declined for the first time since Pearl Harbour. A further decline was noted in July, and another in August. Between May, 1942 and May, 1943, the level of rents was actually reduced by 1.7%. And rents constitute about 20% of the average wage-earners budget. Clothing prices during the same period rose only 1.3%, despite the fact that, during the previous year, they had gone up by 23%.

In the conflict of wage and prices the cost of living

index numbers have played and are playing an important part in the fixation and regulation of wages during this war and inflation. In fact it has become the only reliable instrument for regulation of wages. In European countries the use of index numbers as a basis for the fixation of wages was quite common long before this war. In India the question of correlation of wages and prices has been prominent in many of the strikes which have occurred during the last few years. During these strikes the workers have asserted that the purchasing power of their money wages has fallen and hence their wages must be increased to bring them up to pre-war standards. The employers while admitting the unfavourable position of the workers in comparison with previous years have maintained that the increases they have already offered or are going to offer are adequate. For the solution of this dilemma one has naturally to fall back upon the cost of living indices. Hence the statisticians are often asked as to how far an automatic linking of "dearness allowance" to the cost of living index is a proper solution of the problem and as to whether we can trust these index numbers. Whether it is justifiable to regulate wages on the strength of these index numbers.

The accuracy or otherwise of an index number depends on the method of compilation and construction. In the western countries the science and art of statistics are being perfected to harness it to the use of man in every sphere of his activities. There is their ceaseless attempt to make the results of their statistical calculation accurate as far as possible.

On the other hand the glaring defects and inadequacies of Indian official statistics, are well known. In spite of the criticism in the press, by various committees and commissions and in particular by Bowley Robertson Committee no significant step has been taken to improve the quality of Indian official statistics. The method of compilation and construction of most of the cost of living index numbers show as to how far inadequate, defective and useless they are for any practical purpose.

The Royal Commission on labour in India (1929-31) found its work greatly hampered by the absence of statistics bearing on standard and cost of living of the working classes. On page 194 of the Report the Commission remarks that, "the only investigation so far made with any claim to statistical adequacy are those conducted by the Bombay Labour office in the principal centres of the

Presidency and one enquiry into the standard and cost of living of the working classes in Rangoon. Enquiries made in two centres of the Central Provinces and six centres in Bihar and Orissa have been directed towards measuring the movements in the cost of living and a little work on this has been done elsewhere, but none of these enquiries has attempted to determine the actual representative earnings and expenditure. In Bengal, the leading industrial province of India, not even the construction of a cost of living index has been attempted and a statistical analysis of earnings and expenditure is entirely lacking". The Commission points out the "lack of cost of living index numbers" (page 209) and remarks that though " cost of living indices are regularly published for the Bihar and Orissa centres (yet) these do not appear to rest on any adequate statistical basis and in any case no reliable information regarding the standard of living is obtainable to the public. The construction of reliable cost of living indices, which should be one result of the enquiries we advocate, would be of the greatest assistance to employers and Government in the provinces concerned". The public and the commercial bodies in India are not unmindful of the benefits of the regular publication of the cost of living indices.

Though at present a number of provincial Governments are regularly publishing cost of living indices yet they are not always entirely satisfactory.

The construction of satisfactory index numbers is a problem of the greatest difficulty. The object to which index numbers are to be put determines the method of their compilation. Cost of living is made up of two parts *viz.* (*a*) commodities and services consumed and (*b*) their prices. But this important fact is generally neglected with the result that too much attention is paid to the second factor, *i.e.*, "prices". It must be remembered that the two factors are so interdependent that a change in the relative prices of two commodities will bring about a change in the relative amounts consumed. "This consideration is so important that much of the practical utility of index numbers will be lost altogether if no account is taken at all of the changes in the first of the two constituents. It has been suggested for this reason that the standard to which the cost of living refers should be recalculated at intervals of ten years. Because if the interval is too long the indices will not be strictly comparable. For example in the cost

of living index number compiled by the British Ministry of Labour the weights used are based on the average expenditure of 1,944 urban working-class families. This information was collected by the Board of Trade in 1904. Now, the birth-rate in the United Kingdom fell from 28·1 in 1900-2 to 18·2 (excluding Irish Free State) in 1926. On the strength of these statistics it may be said that the size of an average working-class family must have become smaller in 1926 than what it was in 1902. Now if the family income has remained the same then it may be argued on the basis of Engel's law that the proportion of income spent on luxury articles must have increased in relation to the proportion spent on necessaries. The "weights" must therefore be different in 1926 from what they were in 1902-04.

The "weights" assigned in the Indian cost of living indices, prepared by different provincial Governments, have been obtained from family budget enquiries. But detailed and comprehensive studies have been made only in a few such places such as Bombay, Ahmedabad, Sholapur, Madras City, Nagpur and Jubbulpore. The Bombay Labour office conducted the first enquiry into working-class family budgets in Bombay City between May 1921 and April 1922 and a second enquiry between May 1932 and June 1933 to ascertain weights proportional to the relative expenditure on the different items consumed by an average Bombay workers family. The result of the second enquiry has been used in the compilation of the second index. The report on the enquiry into the family budgets of industrial workers in Madras City conducted during 1935-36 forms the basis for the construction of the cost of living index numbers for working classes in Madras City. The Cawnpore index is based on the tabulations of 300 out of 1500 family budgets of mill-workers that were collected in 1938-39 by the Labour Office of the U. P. The weights used in the compilation of the indices for the Punjab centre were derived from only 138 family budgets of workers getting Rs. 50 or less per month which were collected in connection with the investigations of the Royal Commission on Indian Labour. The weights used in Bihar and Orissa indices have been based on the family budgets collected during 1914-18 (Chanakya Society) budgets and 1923 (Jharia and Jamshedpur budgets). The number of budgets collected in Bihar and Orissa is not known. In Bihar and Orissa the family budgets collected by the Chan-

akya Society were confined to families with expenditure ranging between Rs. 100 and Rs. 350 per annum, while the budgets collected at Jharia and Jamshedpur represent expenditures upto Rs.480 per annum. The Government of Bombay collected budgets mainly through official agencies whereas the Government of Bihar and Orissa used unofficial sources for the collection of budgets. The method of collection and the lines along which the budgets were collected by the Burma Government are the best and may be followed with much profit in future in collection of family budgets. In Burma the budgets related to (*a*) the skilled and unskilled labourers in factories, (*b*) miscellaneous industrial labour employed outside factories, (*c*) casual workers such as rickshaw and handcart pullers, bazar coolies etc., (*d*) independent workers such as craftsmen employed in cottage industries. In this connection it may be mentioned that the Royal Commission on Labour suggested that they "would prefer budgets of families whose combined income is not above Rs. 50 per mensem."

The choice of base is another constituent part of the cost of living index numbers which needs skilful consideration. The period chosen as base should be that period with which accurate comparisons are most significant for the purpose in hand. The difficulty of a fixed base is that it "recedes further and further into the past" and this becomes the less significant the longer it is maintained. To obviate the difficulty of a fixed base the chain base method of constructing index number or Fisher's "Ideal" formula is suggested. Butthey involve too much of complications in practice. So the best thing seems to be the recalculation of weights at fixed intervals. The Indian indices are compiled on different bases. The cost of living index number for Bombay is compiled on the year ending June 1934 as the base, that for Ahmedabad on the year ending July 1927, and that for Sholapur on the year ending January 1928. Indices for Nagpur and Jubbulpore are compiled with August 1929 as the base. Indices for Patna, Muzaffarpur, Monghyr, Jamshedpur, Jharia and Ranchi have the average cost of living for five years preceding 1914 as the base. The base for the index number for working-class cost of living for Madras is the year ending June 1936, for indices for Lahore, Sialkot, Ludhiana, Rohtak and Multan in the Punjab is 1931-35. Index numbers for Vizagapatam, Ellore, Bellary, Cuddalore, Coimbatore, Madura, Trichinopoly and Calicut is the year ending June 1936

and for index number for Cawnpore in the United Provinces is August 1939. Thus the base period of the various index numbers varies from the five years ending 1914 to as recent a base as August 1939.

The next question that engages our attention is the selection of commodities. The practice as to the number of commodities included varies from country to country. In theory the greater the percentage which the total of all the prices included forms of the total money expenditure of the representative family the better would be the accuracy of the index number. In spite of the above argument it is not possible to include all the objects of expenditure of even the labouring classes. For example difficulty arises when an attempt is made to calculate expenditure on furnitures and repairs. The price of repairs is not always easy to ascertain, while furniture, utensils etc., are not bought every month though indices are usually published monthly.

Items are put generally under the classes (A) Foodstuffs, (B) Clothing, (C) Heating and Lighting, (D) Miscellaneous, (E) Rent. It is important to note that a cost of living index should include only those commodities under the food, clothing etc., groups which are generally used by the class of people concerned, which are not subject to wide variations in quality, not to seasonal alteration in supply. Because vegetables are of a seasonal character, in the British cost of living, only potatoes are taken to represent vegetables.

When the items have been selected the next task is to make arrangements for collection of regular price quotations. The reliability of an index number must obviously depend on the accuracy with which price quotations are collected. A particular commodity may have different grades which are sold at different prices among the different customers. It is not improbable that even the same grade of the commodity may be sold at different prices in different localities of the same town. The grades to be included and the localities from which price quotations are to be collected, will depend on the object we have in view. A fresh difficulty arises when there is a change in the nature of consumption resulting in substitution of one grade by another and one commodity by another. The changes may be so slow and gradual as to baffle the investigator. Hence the investigator must make it a point

to find the most reliable source of information, the most representative market and the most typical brands and grades. The prices may be cash prices or credit prices, prices in control shops or prices in black market, they may be modified by rebates granted by the employer. Another difficulty is introduced when secondhand articles are purchased.

Bearing the above statements in mind let us turn to an examination of the methods of compilation of cost of living index numbers in India. The greatest amount of caution is necessary in India in the collection of statistical informations e.g., price quotations pertaining to the constructions of cost of living index. "Official agencies are better than non-official agencies, but even officials of the department, unless properly trained, fail to realise the importance of accuracy in price quotations. Absence of intelligent collecting agencies and the want of care displayed by reporting agents detract much from the value of Indian official statistics". In the United Kingdom there is a central agency which collects price quotations by distributing enquiry forms and collecting them through post. The regular publication of retail price lists and the presence of proper organisation among the retailers in the United Kingdom greatly facilitates the construction of Index number.

It is in the Bombay Presidency alone that price quotations are collected by responsible investigators. The Bombay report points out that the price quotations for almost all the articles, except clothing articles, four varieties of fish, brinjals and pumpkins, are collected weekly by the officers of the Labour Office from two shops in 12 different industrial areas. The prices of all the clothing articles except "khans" are obtained from four different cotton mills having retail shops in the city. The prices of fish, brinjals and pumpkins are taken from the records of the Superintendent of Municipal Markets, Bombay City. In the case of the price of newspaper and railway fares, the information is obtained from the records of the private or public bodies concerned. For the Madras City working classes index numbers, the price data for almost all the commodities comprising the food group, for all the articles included in the fuel and lighting group and for bidis and chewing tobacco which come under the miscellaneous group are collected by an investigating clerk twice a week from

selected retail shops in five representative market centres in the city. The prices of all the clothing articles are obtained from a representative retailer. In the Punjab centres prices are recorded only on the last day of each month. In Bihar and Orissa the special form for the collection of prices are sent to the Sanitary Inspectors of the municipalities of Muzaffarpur, Patna, Monghyr and Cuttack. The prices reported are retail prices prevalent on the last day of each month. The Bihar and Orissa report points out that efforts are made to collect prices from such retailers as are patronised by the labouring classes, and the quality of the different commodities consumed by this class has been ascertained after careful investigation and every effort is made to see that prices reported are for the same class and brand of article month after month. Thus in some centres prices are collected twice weekly, in others fortnightly or monthly. For a monthly index number at least one quotation per week is necessary. A different problem arises when the price of an article is "controlled" by the Government, but illicit sales take place at the black markets.

When we examine the number of articles included in the cost of living index and their classification we find the list of the Bombay working-class cost of living to be the most comprehensive. The classifications adopted by some centres in different provinces are as mentioned below. The index numbers for the centres in the provinces of Bombay, Madras and the Punjab are similar in construction. The items in the list of articles consumed by the working classes are grouped under five heads, viz:—food, fuel and lighting, clothing, house rent and miscellaneous. The indices for centres in Bihar and Orissa do not include the miscellaneous group and the house rent group. The indices for centres in C. P. also do not include house rent. The Jharia index does not include the fuel and lighting group.

Now in the Bombay index the "food group" includes 28 articles, which are:—rice, "patni", wheat, "jowari," bajri, "turdal", gram, raw sugar, tea, four varieties of fish, mutton, milk, "ghee," salt, dry chillies, tamarind, turmeric, potatoes, onions, brinjals, pumpkins, cocoanut oil, sweet oil and ready-made tea. The expenditure on other articles which can be included in the food group has been proportionally divided among items of like nature included in the food group; for example, the expenditure on refreshments

has been added to expenditure on ready-made tea and that on sweetmeats has been divided equally between sugar and milk. In the Madras City index the food group includes twenty two items. The Bihar and Orissa indices included 20 items of food (cereals 5 items, pulses 4 items and other articles of food 11 items). The food group is quite comprehensive in nearly all the indices. The only suggestion that can be made under this group is that it is desirable to include flour as well as grains under this head to make the index truly representative. In this respect the practice in Bihar and Orissa of including "Atta" (wheat flour) is better than that of other provinces. That the charge for milling is a considerable proportion of the value of "atta" is apparent from the Bihar and Orissa report.

Under the clothing group we find that the items included vary from province to province which is quite natural in a vast country like India where the habits of dress vary considerably. The Bombay index includes under the clothing group dhotis, coating, shirting, cloth for trousers, sarees and khans. They form 79·59% of the average monthly expenditure of the family in this group. The report on Bombay index under the same heading adds that articles like pairan (shirt) for which comparative price quotations cannot be obtained are difficult of inclusion and hence only such articles as do not involve tailoring charges *e.g.*, shirting instead of shirts and khans instead of cholis have been included in the index. The Bihar and Orissa indices include 5 items in the "clothing" group. The reason of Bombay report for non-inclusion of tailoring charges is not quite adequate. It cannot be denied that tailoring charge is a considerable proportion of the value of garments. A noticeable thing under this head is the absence of any quotation for footwear. This item has acquired some importance in the budget of the labouring classes. For example, the Government of the C. P. in their memorandum to the Labour Commission, calculated on the basis of family budgets collected, that the average monthly expenditure on shoes and sandals ranged from one to ten annas in Nagpur and Jubbulpore.

There is a great deal of uniformity among different provinces in the items included under the head "Fuel and lighting". The Bombay and Madras indices have included charcoal, kerosene oil and matches. They account for 98·25 % of the monthly expenditure of the family on this

group. The Bihar and Orissa indices (except that of Jharia centre) have included coal. Though electricity has not yet assumed any importance in the budget of the Indian labourer it is likely to do so in the post-war period especially in Bihar and Orissa where there is a plan afoot to supply electricity at a very cheap rate throughout the provinces.

The miscellaneous items are assuming greater importance day by day in the budget of the labouring classes. The items included under this group are the least satisfactory. Bihar and Orissa indexes have excluded it altogether. There is little justification for it at a time when in the memorandum submitted by the East Indian Railway to the Labour Commission it was calculated on the basis of 213 family budgets collected from railway workers in Bihar and Orissa that out of an average family income of Rs. 24 a month a sum of Re. 1 was spent on hair cutting, dhobi and soap, tobacco including bidis, and pan-supari. Some, if not all, of these items might have been put in the miscellaneous class as has been done in most of the other index numbers. The Bombay working-class index includes the following seven items, *viz.*, barber (shave), washing soap, medicine, supari, bidis, travelling to and from native place and newspapers representing 54·94 % of the average monthly expenditure on the miscellaneous group have therefore been included in the index. The expenditure on "dhobi and soap" and pan-supari in the Bombay index has been taken to be expenditure on soap and pan-supari respectively. Similarly, expenditure on "bidis and cigarettes" has been taken to be expenditure on bidis. In the index for working classes in Madras City the following items, *viz.*, (1) Pan-supari, (2) Education, (3) Dhobi and soap (washing), (4) Shaving, (5) Travelling to and from place of work, (6) Amusements, (7) Medicine and medical charges, (8) Tobacco for chewing, and (9) Bidis have been included. But the report on the index under this heading comments that it is difficult to get comparable price quotations from time to time for the seven of the above-mentioned items. The average monthly expenditure per family on each of these items has therefore been assumed to be the same as that revealed in 1935-36 family budget enquiry. Prices are, however, being recorded for the last two items, *viz.*, chewing tobacco and bidis. In the end we may say that the miscellaneous group is possibly the most unrepresentative of working-class family expenditure on this group. The

reason for it is perhaps that there are only few articles under this heading which lend themselves to regular price quotations. But there is absolutely no justification for non-inclusion of liquor whose consumption is appreciable among the working class. Expenditure on this item is, in the opinion of competent observers, almost everywhere considerable. But there is everywhere a tendency to underestimate its consumption and labourers are very averse to disclose information on this head. But possibly the family budget method, supplemented by figures supplied by the excise authorities, may enable us to assess its real weight in the family budget.

As regards the item "Rent" we find that it is not included in the Bihar and Orissa and in the C. P. indices. The Bihar and Orissa report notes that house rent has been excluded because, though this item is so important in areas like Bombay or Calcutta, it is not so in Bihar and Orissa, where many labourers live rent free and rent is never a serious item. But the grounds for its exclusion are not adequate and conclusive. In industrial centres like Jamshedpur and Nagpur, house rent is an important item. In the Bombay working-class index the house rent figure adopted for the index is the average rent per tenement obtained as a result of the 1932-33 family budget enquiry and that for Madras City the house rent figure adopted for the index is the average rent per tenement obtained as a result of the 1935-36 family budget enquiry. The figures so arrived at in the two indices are carried forward month after month. The reason for carrying over the same figures month after month is that house-rent does not fluctuate as often as other items in the list.

If we take all the five groups *i.e.*, food, clothing, fuel and lighting, miscellaneous and house rent together, we find that there is a tendency to underestimate services as compared with commodities. Thus tailoring, washing, hair-cutting, repairs, amusements, education, medical aid etc. find no place in the cost of living index. On the commodity side too there are omissions particularly those on which expenditure is occasional, such as furniture, utensils, ornaments etc. Non-inclusion of items on which about 20% of the family income is spent will not seriously affect the index if we are justified in assuming that the rise or fall of the price of the omitted articles is almost parallel with those included under the group.

Now we come to the last and the most interesting process in the construction of cost of living index *i.e.*, "the method of computation". The index numbers for the centres in the provinces of Bombay, Madras and the Punjab are similar in construction. The index number for working classes in Madras City are computed on lines similar to the Bombay cost of living index, which in its turn is modelled on the index published periodically by the British Ministry of Labour. The method adopted for computation of the Bombay working-class cost of living index is very similar to that of the British Ministry of Labour (with effect from the index for the month ending 15th May, 1943, the method of compilation of the index number for the cereals sub-group has been readjusted because of the unavailability of cereals like "patni" and "jowari" in Bombay City and the appearance and disappearance of individual varieties of cereals in present conditions). As regards computation the price quotations for the current year are first expressed as percentages of the prices for the base year. These percentages are weighted by the percentages which expenditure on each item bears to the total expenditure on the group to which it belongs and the products are summated. Sum of the products divided by 100 gives the weighted average index for each group. The group index numbers are weighted by the percentage distribution of the expenditure on each of the groups and then divided by the sum of the weights. The resulting weighted average is the final index. The percentages by which group index numbers are weighted are those arrived at as a result of the 1932-33 enquiry, except in the case of the "miscellaneous" group whose weight is 14 and not 25 which it may have been in view of the fact that the sum of the weights (percentages) for the first four groups comes to 75. The figure 14 represents the percentage which expenditure on actual items included in the miscellaneous group bears to the total expenditure of the average working-class family. The percentages for the different groups are :—

Food	 47
Fuel and lighting	 7
Clothing	 8
House rent	 13
Miscellaneous	 14
	89

The method of computation for the cost of living index for working classes in Madras City is nearly the same. For each item the average of the prices collected twice weekly during a calendar month is expressed as a percentage of the corresponding price in the base year. The percentages thus calculated are multiplied by weights showing the relative importance of each of the items in the group. The weights are arrived at by taking the expenditure on the items included in each group equal to 100 and working out the percentage of the expenditure on the several items. The group index numbers is obtained by dividing the sum of the products of the price relatives and the corresponding weights by 100. For finding the final index number the group index numbers are weighted on a percentage basis in proportion to the total expenditure pertaining to each group and the sum of the products is divided by 100. In Bihar and Orissa the index number is derived thus : The current price collected is expressed in index figures as compared with those in the normal period which is the average of the prices current during the five years ending 1914. These current price indices are multiplied by the bases which are the ratios of money expenditure and also the weights. This result is compared with the total normal expenditure already calculated for any particular centre. The result when expressed in percentages of the basic period (taking the normal year to be 100) gives the index figure for that centre.

In the Indian indices only arithmetical averages have been used. The limitations of arithmetical average are not always borne in mind. The want of attention to the fact that with arithmetical average the bases are not reversible, is to be found in an attempt in the Bihar and Orissa report to compare the cost of living at the different centres relative to Patna, taking the cost of living at Patna in April 1922 as 100. Thus indices calculated on the base of 1909-14 prices=100 have been recalculated by making the index thus arrived at for April 1922 equivalent to 100. This is objectionable and practically useless. All these difficulties would have been solved had geometric mean been used. The geometric mean has the advantage that it makes possible the replacement of commodities which have ceased to be representative by those which have become representative without affecting the balance of the index. Yet another advantage of this mean is that index number calculated by using it is reversible,

that is, a change of base year can be made without affecting the proportionate change in the index. Thus geometric mean provides partial solution for many of the fresh difficulties brought in by the war in the preparation of cost of living index *e. g.*, (*a*) the grade of a commodity like dhoti or mustard oil included in the index, going out of the market, (*b*) a commodity like coal appearing in and disappearing from the market, (*c*) the introduction of rationing in many of the centres for which index numbers are prepared.

Apart from the index numbers already stated the Government of India has made a commendable attempt in launching a scheme for construction of cost of living index numbers in a scientific manner and on a uniform basis for 50 centres in India at the suggestion of the "Rau Court of Enquiry". The Rau Court of Enquiry, which was appointed in August, 1940, under the Trade Disputes Act, 1929, to investigate into the dispute regarding dearness allowance on the G. I. P. Railway, made the following statements in para 111 of its report:—

"None of the cost of living index figures at present available are entirely satisfactory..................The first requisite for any satisfactory revision of the allowances that we have recommended is the preparation of up-to-date cost of living index figures for three distinct classes of areas, city, urban and rural.........we would accordingly recommend that the question of preparing and maintaining such figures for the purposes of the Central Government be considered by the Government of India".

Acting on this suggestion the Government of India formulated a centrally controlled scheme for the preparation and maintenance of cost of living index numbers in selected centres. A short summary of the scheme was sent to Provincial Governments in October 1941 to which most of them gave encouraging reply. The Third Conference of Labour Ministers held at Delhi in January 1942 suggested that it was advisable to ensure uniformity of technique in the compilation of cost of living index numbers in the various provinces. The Government have appointed a Director, cost of living Index scheme to make the necessary preparations for the compilation of cost of living indices in selected centres of British India on a uniform basis. 50 centres—48 from different provinces of India (excluding those of the N. W. Frontier and Madras) and Ajmer and Delhi—have been selected for which it is proposed to com-

pile cost of living indices. Family budget enquiries are to be conducted in those centres by the Provincial Governments or Administrations concerned. It is hoped that some 20,000 family budgets would be collected for determining the necessary "weights". Meanwhile the Government have proceeded concurrently with a scheme for the compilation of retail price indices for those centres for which cost of living indices would be ultimately compiled.

The necessary work with regard to this scheme has begun, and weekly quotations of retail prices are being obtained. The list of items for the Retail Price Index Number Scheme has been so drawn up that if and when family budget enquiries in the selected centres are completed and "weights" ascertained, it may be possible to proceed immediately with the compilation of the necessary cost of living index numbers by making use of the retail price data collected then.

THE STATE UNDER THE BOMBAY PLAN

BY

B. V. KRISHNA MURTHY, M.A., B.Sc.

Sir Dinshaw Wacha Research Fellow, School of Economics and Sociology, University of Bombay

I

This is an attempt to analyse some of the issues involved in the role of the State as enunciated under the *Bombay Plan.*[1] It is the contention of this paper that the approach to the problem is rather nebulous and a reformulation is necessary to render the plan consistent.

The authors clearly recognize that: "Since planning is primarily a matter of organizing the human and national resources of a country, our aim should be to devise a system which would help to utilize them to the maximum advantage"[2]. Capitalism in so far as it affords scope for individual enterprise has an important contribution to make to realize this aim. But unless the community is endowed with power of controlling the activities of individuals seeking their own aggrandizement, no economic plan will succeed in promoting the common good. The economic system must ensure a fair distribution of the fruits of enterprise and labour among all who contribute to them.[3]

Translated into economic language, the objectives are no other than the maximization of economic welfare attained through the most effective utilisation of resources and equitable distribution of social dividend. It is the authors' firm belief that to realize this objective the economic system must be based on private enterprise. The role of planning consists in regulating enterprise for the maximum social good. It is worth while subjecting these ideas to an objective examination.

[1] *A Plan of Economic Development for India, Part II.* P. Thakurdas and others (December 1944).

[2] *Ibid*, p. 23.

[3] *Ibid*, p. 1, pp. 23-26.

II

A pragmatic approach to this great problem should necessarily take into account the existing state and the probable future trends of capitalism in the leading parts of the world. This is of importance since the plan is to be implemented when the country occupies its proper place in the post-war international framework. An isolationist planning of economic affairs in this country simply cannot survive the impact of developments in the West.

It is now a widely held view that capitalism is, and for some time has been, in a state of decay. But there is no complete unanimity of opinion about the exact nature of decay. Two theories mainly illustrate the points of difference.[4]

There is first, the theory of "Vanishing Investment Opportunity".[5] This theory points out that capitalism, unlike other economic systems, is geared to incessant economic change. Stationary capitalism is a contradiction in terms. Recurrent industrial revolutions are in its very nature ; and these constitute the main sources of profit and interest, and provide the main opportunities for new investments and the main outlets for new savings. All the essential features of capitalist economy would be atrophied in a stationary world.

This is what is happening during the present times. The process of economic conquest is tending to exhaustion. Great innovations are not in sight. The small ones in the offing cannot attract enterprise or investment either because they are capital-saving rather than capital-consuming or because they are better fit for public rather than private management. The opportunity of opening up new markets and new sources of raw materials has dried up. Finally, falling birth-rate tends to eliminate a source of reliable investments. From these facts the theory deduces that there exists a 'perennial—inadequacy of profit expectations' accounting for insufficient investment and under-employment. Thrift, instead of bringing forth an expansion in the industrial equipment, leads to fall in prices and unem-

[4]See Joseph Schumpeter : 'Capitalism in the Post-war World,' in *Post-war Economic Problems* (1934) Ed. S. H. Harris.

[5]Prof. Alwin H. Hansen is a recent exponent of this theory. See his *Fiscal Policy and Business Cycles* (1941) Chap. I.

ployment. The saving-investment process, which is the lever of capitalist economy, works with increasing friction. 'A progressive paralysis of the political organs of capitalist society' sets in and the capacity to withstand shocks or resist attack is greatly reduced. The closing up of investment opportunities brings in sequence the decay of the capitalist order.

A more comprehensive theory is advanced by Joseph Schumpeter.[6]

Admitting that profit expectations form the operative link in the deduction, this theory brings into clear relief the most important element viz., the anti-capitalist policies adopted in most European countries even before the First World War and in the U. S. A. since 1933.

This theory also begins with the irrefutable proposition that capitalism is essentially a process of economic change; and further points out that one of the most striking phenomena of this process of change, which was first recognised by Karl Marx, is the emergence of the large-scale business units. These large-scale units tend to "expropriate" the small-scale or medium-sized firms. But under democratic conditions, this process weakens the industrial bourgeoisie. The vast class of businessmen who own and manage the small-scale or medium-sized productive units is not so severely exposed to political attack, or is in a better position to withstand it than the small number of salaried managers or the large numbers of share-holders. Moreover, within the big business the jealous sense of possession and the will to protect property at any cost wither away. The big concern not only expropriates the small concern but breeds within itself germs of disintegration. The business executives are not only in a less advantageous position to defend their ground but meet attack in a weaker spirit. "The big business is a mid-way house to Socialism."

The theory further explains how the capitalist process undermines the structure of capitalist society. It tends to eradicate economically and socially the "protective strata". The rise of the bourgeoisie expelled the old aristocracies from political leadership. The factory destroyed the old crafts and the department or chain store is driving out the

[6] *Capitalism, Socialism and Democracy*, (1942), Part 2. Also *Capitalism in the Post-war World.*

petty trader. The rapid industrialisation is reducing the size of the farming class. And so on—the process continues to operate, the new forces swamping the old.

"The capitalist process itself produces as effectively as it produces motor cars or refrigerators, a distribution of political power, an attitude of public mind and an orientation of political sector that are at variance with its own law of life."[7] It gives rise to anti-capitalist policies, which irrespective of individual intentions, obstruct capitalism from functioning according to its logic. The implications of the capitalist system meet with increasing moral condemnation. The most obvious illustration of this tendency is the basis of modern taxation.

That the decay of the capitalist society is now very far advanced is a fact which is widely recognised. And it is under these circumstances that events like world wars acquire a terrific importance in shaping the history of social systems which they would not if they impinged on an order of society which was intact. The present world war significantly differs from the First World War in this respect.

Modern "total war" calls for a concentration of effort to an extent that the mechanism of capitalist markets proves unequal to the task. War-time planning suspends the normal functioning of the capitalist mechanism. In that process it creates new social organs and positions of power, and gives rise to new economic structures and functions. These do not easily disappear with the event that brought them into existence. They have to be dissolved by series of specific measures which naturally meet with resistance. The outcome of ensuing struggle will depend not on the desirability to return to pre-war ways but on the might of political forces marshalled for or against it.

An environment conducive to the existence of capitalism has ceased to exist since some time past and is obviously unlikely to exist in the future. Capitalist management would have to launch upon problems of reconstruction, stripped of capitalist motivation, under burdens which render impossible the accumulation of venture capital, without security in investments, in the face of public opposition, and above all, under rigorous control of a powerful bureaucracy.

[7] *Capitalism in the Post-war World*, p. 119.

The public mind has renounced loyalty to the capitalist order of values. All the restrictions imposed on capitalism embody what are to most people their cherished achievements. Intellectuals and organised labour come out of this war with a radical outlook. Prof. F. Von Hayek is alarmed that "if we take the people whose views influence developments, they are now in the democracies in some measure all socialists. If it is no longer a fashion to emphasise that 'we are socialists now' this is merely because the fact is too obvious."[8] The result of the ensuing General Elections in England will be another pointer to public opinion. The recent formation of the World Trade Union International is also not of mere passing significance.

Therefore, it is the future of a decaying capitalism, fettered by all types of war-time controls and battered by a hostile public opinion, that one has to predict. In case capitalism were to survive, it would probably be not very different from "capitalism in the oxygen tent kept alive by artificial devices and paralysed in all those functions that produced the successes of the past. The question why it should be kept alive at all is therefore bound to be put before long".[9] It is only capitalism in this form that is of any significance in discussions relating to Post-war Plans.[10] And it is in this background that one has to judge the possibility of post-war capitalism or "controlled capitalism" in this country.

III

It is now a commonplace that capitalism has lost all its pristine charm that it possessed in the days of Adam

[8] F. Von : *The Road to Serfdom*, 1944, p. 4.

[9] *Capitalism in the Post-war World*, p. 123.

[10] It might be argued that this is what is happening to the capitalism of the West; and Indian capitalism being either nascent or expanding, may remain unaffected. This is however extremely unlikely. First, the country is already involved both by its own free choice and because of the foreign economic policies of the United Kingdom and America, in the network of world capitalism (the participation of Indians in the various world conferences is an indication of the public willingness. The recent industrialists' visit to the allied countries is of high significance in this connection). Secondly the growing war-time controls are bound to put the economic system under heavy strain. Public opposition to the capitalist dominance is by no means small, though not to the extent prevalent in the West.

Smith and Ricardo. The case for private ownership and private enterprise calls for a drastic revision if it is to hold any meaning today. As such, it is of supreme necessity to discover where exactly the case for free enterprise lies in "a plan for orderly and stable development."

It is the large-scale private enterprise which is more or less of a monopolistic character that is now under discussion;[11] since it is that which, it shall be presently shown, exercises social dominance and acts against social interest.

The important aspects of modern industrial activity are highly complex in technical organization. The emergence of the final product is possible only through technical coordination of a vast number of individual tasks not only within the particular factory but in farms, mines, railroads etc. In analysing the production process of a representative large-scale industry (say, a textile industry), it is convenient to distinguish the following groups who together perform the "entrepreneurial" function.[12]

The first and the most important group consists of the individuals who are in charge of the actual technical processes of production. These are the production managers, plant superintendents, operating executives and their associates. It is their task to mobilise the raw materials, tools, labour, etc., in such a way as to turn out the final product. This group is termed the group of "Managers".

The second group is composed of individuals who have the important function of conducting the company toward a profit. It is their job to sell the appropriate output at profitable prices, to bargain over the price of raw materials and labour, to arrange the terms of financing the concern and so on. The highest ranked and the best paid officials of

[11] It is necessary to mention in this connection that this problem is discussed with the specific view of finding the significance of free enterprise *in* a planned economy. The learned arguments advanced by Hayek, Mises, Robbins and Graham in favour of private enterprise cannot be invoked here, because, first, they maintain that planning (in modern terminological sense) is incompatible with liberal enterprise; and secondly, modern private enterprises are far from the ideal ones that they uphold. [See Hayek: *Road to Serfdom.*]

[12] This functional analysis is based on James Burnham's *The Managerial Revolution* ('44) Ch. 7, p. 73 ff.

the concern are to be found in this group. This is the group of "Finance-Executives".

The third group comprises of persons whose problems are totally different from the first two types. These are the Company Directors, Bankers, and Big Financiers. Their direct concern is not, or need not be, either in the profits of the particular company or in the technical processes of production. Through inter-locking directorates, banks and other devices, they are interested not merely in the financial aspects of the company in question but of many others and their market operations. They may merge one company with others, put some competitors out of business, influence political policies or inflate prices ; and any of such aims might be altogether independent of the requirements of production or profit in the particular company concerned. These are the "Finance Capitalists", famous in the modern economic system.

The fourth group is made up of a large number of individuals who own in their names stock-certificates in the company and who are formally and legally the owners of the concern. But they have merely a passive relation to the company.

This fourfold separation is in reality a separation of functions. In all important sections of modern industry, these four functions are sharply differentiated ; and as a rule they are performed by different sets of individuals. It is not always so ; but it is tending to be more and more so. Even when the same individual performs several of these functions, his activities in pursuit of each are easily separable.

The process of production is technically impossible unless some individuals carry out the functions of management of the first group. Some of the "Finance-Executive" functions are also technically very necessary, but not in the sense in which it is understood today—that is, notnecessarily for the sake of capitalist profit. These functions could be performed with high efficiency in subordination to some political, social or psychological aim, or in pursuit of lofty ideals.

From the strictly technical viewpoint of efficiency of production, the profit-making functions of the finance-capitalist (and the share-holder) are altogether unnecessary.

The efficiency of the individuals that belong to the first two groups is by no means dependent on the nature of ownership of the means of production. All these individuals are salaried members and it is not difficult to provide a legion of illustrations pointing and their high efficiency even in state-owned enterprises. Prof. Pigou points out "the enormous progress that has been made since the war in aircraft design, largely through Government-controlled research (in England)".[18] Soviet Russia provides innumerable instances in this direction.

It is evident that the essential aspects of modern production process are not dependent on private ownership of the instruments of production. Often it is the fact that the persons in charge of technical efficiency meet with resistance from the finance-capitalist; and they enjoy greater incentives in State-owned enterprises. The case for private enterprise does not lie here.

In most big corporations, the bulk of the stock-holders holding in their names the majority of the shares of the stock have merely a passive relation to the company. They exercise hardly any control over the company; nor have they any responsibility for the success of the enterprise. Their role in production does not extend beyond mere financing of the concern. It cannot be seriously maintained that their interests are excellently safeguarded by the 'finance-capitalists'. In fact the position of these stock-holders will be greatly improved when they are transformed into mere rank and file of the State, enjoying the benefits of the State-owned enterprises.

Ultimately, it is the 'finance-capitalist' who exercises the *de facto* ownership of the instruments of production in private enterprises. These persons, some of them at any rate, are also stock-holders. Together they usually may not own in the legal sense a majority of the shares, but they ordinarily own a substantial block of shares. In addition, they have at their command liquid funds and other resources through which they can, if need be, secure from the small stock-holders enough proxies to exercise a majority. The case for modern large-scale enterprise is merely a case for the existence of this group of 'finance-capitalists'. The question of modern large-scale enterprise

[18] A. C. Pigou : *Socialism vs. Capitalism* (1939 repr.) p. 86.

simply consists in whether *private* finance is *socially necessary* and promotes the social interest. The task now is to examine this.

In a system based on the pursuit of private profit, it is the natural tendency of each producer to exploit all possibilities of maximizing his profit. The desire to limit competition is as natural for private enterprise as the desire to protect the value of investments is natural for private ownership of capital. Adam Smith long ago remarked: "People of the same trade seldom meet together even for merriment or diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices".[14] No private producer or capitalist can be expected to renounce voluntarily a chance to gain.

The system of free competition demands the pursuit of maximum profit in order to function, but it destroys profit when they are actually pursued by a large number of persons.[15] However, this is true so long as the size of the firm is small and correspondingly the number of firms is large. But with the emergence of the large-scale business and the concentration of financial control, this very pursuit of maximum profit stamps out free competition. Political intervention is frequently sought to protect profits and investments. The economic power of the big business creates serious social and political consequences. As long as the pursuit of maximum profit is the basis of all economic activities, it is unavoidable that "individuals seek their own aggrandizement regardless of public welfare".[16] Unless the State is a superhuman force, it has got to submit to the pressure of those in power. Social dominance is the prerogátive of the economically powerful.

It is important to ělucidate further how the modern capitalist enterprise, in its very logic of further development, is opposed to the social interest.

The spectacular economic development of the past two centuries is a result of innovations increasing the producti-

[14] Adam Smith: *Wealth of Nations*, Vol. I, p. 130 (Cannan's Fifth Edition).

[15] For the following discussion see Oscar Lange: *On the Economic Theory of Socialism* (1938) Ed. Lippincott.

[16] *Bombay Plan*, p. 26.

vity of a given set of resources, or creating new goods and services. These innovations have a direct effect on the profits of private enterprise. The producer who introduces the innovation gains an immediate profit though it is only temporary under conditions of free competition. The producers using the obsolete methods of production, or producing competing goods which are ousted by the cheapening rivals, meet with losses which ultimately reduce the value of capital invested in their firms. It is true that certain producers, on the other hand, gain by the new demand created as a result of the innovation. But, under any circumstance, each innovation is necessarily associated with a certain devaluation of old investments. Under free competition, the producers have to submit to these losses, for there is no means of counteracting them. The only way is to bring in innovations in their firms and in turn, land others in losses. But when business units tend to grow to a size which renders ineffective the "parametric" function of prices, it is possible to avoid a devaluation of invested capital. A private enterprise, unless driven by competition to act otherwise will not introduce innovations unless the old invested capital is amortised or the reduction in cost is pronounced enough to offset the loss in value of the old invested capital. The tendency to protect old investments becomes still more powerful when the ownership of capital is divorced from the entrepreneurial function; and this is happening more and more under modern 'finance-capitalism'.

It is clearly in the interests of society that any improvement available be introduced, so long as it is socially useful and economically desirable, irrespective of its effect on the value of capital already invested. But this, however, cannot be realized in the modern system of private enterprise.

The preservation of the value of invested capital means that producers who find chances in one industry more attractive than in any other, are hindered from entering it. Producers who are prepared to serve the consumers at lower returns have no chance of entering the field in order to compete with the existing ones; and thereby reduce price, which is clearly in the social interest. Cost-reducing improvements in technique are deliberately held up. Economic progress in the sense of cheapening commodities is incompatible with protection of invested capital.

In the present-day 'finance capitalism', this preservation of the value of invested capital has become the sole concern of the capitalists. Consequently, the protection of monopoly privileges has been a dominant activity of the State. As a result, economic progress is either stopped or slackened.

But innovations cannot be stopped altogether, since, quite often, the firm that introduces them stands to gain while only other firms or industries suffer a devaluation of their capital. When new innovations become so forceful as to tend to destroy the artificially preserved value of old investments, a 'frightful economic collapse' is the result. "The stability of the capitalist system is shaken by the alternation of attempts to stop economic progress in order to protect the old investments and tremendous collapses when those attempts fail".[17] Either the attempts to protect old investments should be given up or new innovations should be effectively stopped.

Again, withholding technical progress lands capitalism in a new welter of difficulties. Capital accumulation finds no outlet in profitable investment opportunities. The marginal net productivity of capital tends to reach a level insufficient to compensate the liquidity preference of the capital-owners. This becomes even more serious when part of the industries are in a monopolistic position, so that their investment is intact, while new capital entering into industries where capitalism still reigns, depresses the marginal net productivity of capital much more than would otherwise be the case. The result is a deflationary pressure tending to chronic unemployment of productive resources.[18] To avoid this, the State has to step in, and undertake great public investments in place of the capitalists who decline to enter because of the low returns. And, unless further capital accumulation is effectively checked, the State may be driven to take over more and more of the investment functions of the capitalists. "Thus the capitalist system seems to face an inescapable dilemma ; holding back technical progress leads, through the exhaustion of profitable investment opportunities, to a state of chronic unemploy-

[17]Lange: op. cit. p. 114.

[18]Keynes: *General Theory of Employment, Interest and Money*, pp. 217-21 and 308-9.

ment which can be remedied only by a policy of public investments on an ever-increasing scale, while a continuance of technical progress leads to the instability due to the policy of protecting the value of old investments".[19]

The one way out would seem to be a return to free competition. But this would be achieved only by smashing the large-scale business units in order to destroy their economic and political power. This could be realized only by forgoing the *great* economic achievements associated with large-scale production. Such an artificially constructed system of free competition would have to prevent the use of advanced technology. No one can seriously recommend this way out.

The other way out would be for the State to control the productive activity, with a view to prevent monopoly and restrictionism. Such control would mean planning of production and investment without abolishing private enterprise and private ownership. This is the favourite idea of the authors of the Bombay Plan.

The authors state: From the viewpoint of maximum social welfare, State control appears to be more important than ownership or management. Over a wide field, it is not necessary for the State to secure ownership or management of economic activity. State ownership is necessary where the State finances an enterprise which is important to public welfare, or security; also, in those industries where control without ownership is ineffective. If later on private finance is prepared to take over the industries financed by the State, then State ownership may be replaced by private ownership, while retaining effective control over them. Enterprises owned wholly or partially by the State, public utilities, basic industries, monopolies, industries using or producing scarce natural resources and industries receiving State aid should normally be subject to State control.[20] The authors maintain, in short, that most of the important large-scale enterprises should be left to private ownership subject to effective State control. The attitude of the authors towards Banking is left undefined.

It can easily be seen that such planning can hardly be successful. The mighty economic power of the banks

[19] Lange: op. cit. p. 116.
[20] *Bombay Plan*, pp. 27-28.

and corporations being what it is, it would mean they that would exercise undue control on the Planning Authority Such planning would end in a triumph of monopoly and restrictionism, just the very opposite of what is sought for. But even if this were not to happen, still the planning would scarcely succeed. Retaining private ownership of property and private enterprise, and compelling the producers to act in a way different from what is required by the pursuit of maximum profit would mean an intense regimentation of entrepreneurial activity. To know what this implies, one has only to remember that State control preventing restrictionist preservation of the value of invested capital would mean forcing the producers to act in a manner which imposes on them actual losses. This would upset the financial fabric of modern capitalism. "Capitalism (like any other system) cannot be expected to function effectively except on its own terms, that is to say, in a social atmosphere that accepts its responsibilities and incentives and allows it sufficient freedom of action".[21] The incessant friction between finance-capitalists and producers on the one side and the State Planning Authority on the other would paralyse capitalist activity. Moreover, the big banks and corporations could wield their 'diabolic' power to defy the Planning Authority, in a variety of ways. They may close down the plants, withdraw investments, or resort to many other types of 'economic sabotage'. As a consequence, the Planning Authority would have either to surrender and retire from effective intervention in the pursuit of maximum profit, or to transfer the defying banks and corporations into State ownership. The latter would mean a straight road to collectivism.

It follows that planning for maximum economic welfare of the society is not consistent with, and is effectively hindered by the preservation of *private* ownership in enterprises which are of such strongly monopolistic character as to exercise *economic dominance.* Within this category comes public utilities, basic industries, industries using or producing scarce "natural resources"[22] and such other monopolies. Much less can there be any justification for State ownership to be replaced by private ownership in industries of "public welfare or security" (which are essentially

[21] *Capitalism in the Post-war World*, p. 121.
[22] *Bombay Plan*, p. 28.

monopolistic in character) even "if later on private finance is prepared to take over them".[23] In case of monopolist enterprises that exercise economic dominance, control without ownership has no meaning.

The authors then present a compromise formula: Where considerations of efficiency or public welfare would not permit a clear cut decision as regards the nature of ownership then the solution consists in the simultaneous operation of both the systems in such industries. That would provide a useful incentive and corrective to each system, resulting in all probability a maximum contribution to the welfare of the community. Public utilities of a monopolistic character, and industries for the product of which the government would be the principal customer would belong to this type.[24] This again invites some comments.

What distinguishes a state-owned enterprise from the one based on private ownership is the comprehensiveness of the elements that enter into the cost system. What enters into the cost of production of any particular firm depends on historically given facts. But, as Prof. Pigou has shown, there is usually a divergence between the private cost borne by a producer and the social cost of production.[25] In the cost account of the private producer only those items enter for which he has to pay a price. Items of cost such as the maintenance of the unemployed when the producer discharges the workers, the provision for victims of occupational diseases and industrial accidents and such others do not enter the private costing. An industry based on private enterprise can take little consideration of the precious alternatives like health and security, sacrificed in the process of production. But the State-owned enterprise can and does put the alternatives into accounting and minimize the social waste. The very principles guiding the two systems of enterprise are different from each other and even conflicting (except under special conditions). Though theoretically it is possible to provide a common basis of comparison (by an elaborate system of taxes and bounties), its worthwhileness in practice needs to be seriously questioned.

[23] *Ibid*, p. 28.
[24] *Bombay Plan, pp. 30-31.*
[25] A. C. Pigou: *Economics of Welfare*, 3rd Ed. (1929), pp. 190-2.

Further difficulties come up when one considers the question of public utilities. Prof. Pigou provides interesting illustration: "A consumers' association for providing itself with raspberry jam will be under no temptation to manufacture pips for it out of wood; and a capitalist jam-maker may do this. A municipal authority will be under no temptation to slaughter animals for food under insanitary conditions to escape the expense of making them sanitary; and a private butchering concern may do this. This is a very important matter, so important indeed that in industries closely associated with public health it is customary in this country (England) to insist on a rigorous inspection and when as in construction and operation of sewers, that is, for technical reasons difficult, on public ownership and operation."[26] It is clear that important considerations concerning the health and welfare of the people are involved in allowing private monopolies to operate public utilities for profits. In social interest, a rigorous inspection and strict control of these concerns are necessary; and the expense involved in the functioning of the machinery of control should be charged to the private producers, while measuring the relative efficiency of State-owned and private enterprises. It is inconceivable why there should be an insistence on the preservation of monopolies in public utilities while so many difficulties are involved in regulating them toward social interest and in constructing a common basis of comparison between the two systems.

However, in industries of smaller importance, where social conditions permit, it is desirable to provide an equal chance to both the systems of enterprise. In such cases, if the private enterprise paying the same prices for factors of production as the State, can produce more efficiently than the State, it will be able to survive the State competition. Where private enterprise is less efficient than the State enterprise, it will have to make way to the latter.

When monopolistic enterprise is incompatible with economic progress, and when it is not possible to return to free competition or to have effective state control of enterprise and of investment without taking them out of private hands, then State-ownership will be the only

[26] A. C. Pigou, *Socialsim vs. Capitalism*, p. 90.

solution advisable. But this is not to stress the necessity or wisdom of abolishing private enterprise and private ownership of means of production in those spheres where free competition possibly reigns, that is, in small-scale enterprises. This point is of especial importance.

The criticism is not levelled against private property as such, but only against that particular type of private property which creates social privileges to the detriment of the 'body economic,' or hampers economic progress. All private property in the means of production and private enterprise which are not likely to lead to social power or to act against social interest ought to enjoy the full protection and encouragement of the Planning Authority. But in the interests of maximum social welfare, private enterprise ought to satisfy the following conditions, *viz.*, (1) free competition must reign in it; (2) the extent of the means of production owned by a private producer (or the capital owned by a private shareholder in collectivist enterprises) must not be so large as to cause considerable inequality of incomes, and (3) small-scale production must, in the long run, not be uneconomical relatively to large-scale production.

IV

In the last analysis, the real issue is not one of private enterprise versus State ownership. The fundamental criterion is economic efficiency. Maximization of economic welfare is the end, in the realization of which both collectivism and private enterprise are perfectly approved means. What is objected to is the presence of monopoly, whether State or private, which acts against social interest.

The role of economic planning consists in the maximization of welfare while preserving the democratic ideals of "economic liberalism."[27] "Economic liberalism aims, by setting up appropriate institutions to maximize the freedom of each individual member of society to satisfy his own desires wherever this does not interfere with the freedom of other individuals." The *Bombay Plan* has excellently

[27]The outstanding champion of this school is Mr. A. P. Lerner. See his '*Economics of Control*' (1944) also *Economic Liberalism in the Post-war World* in 'Post-war ECONOMIC PROBLEMS' pp. 127-8.

pointed out the importance of this great principle in human affairs.

The system of production should be based on the principle of the most effective utilisation of resources, and should reflect the free choice of the individual in consumption and in occupation. The price of every article is then equal to its marginal cost, and the reward for every kind of effort is equal to its marginal product.

Neither private enterprise nor the State may enjoy a monopoly if the democratic ideals of liberalism are to exist. Both must be allowed to contribute to general welfare, each serving in the fields where it establishes its superiority. Both must provide the necessary guaranty of the freedom of the individual by freely competing with each other in securing his efforts and in providing him the requisites he needs to buy.

V

It is now possible to emerge out of this lengthy discussion and attempt a concise reformulation of the role of the State.

First, there ought to be a shift in emphasis from the efficiency of private enterprise to the preservation of the values of economic liberty. If the fundamental aim is the maximization of social welfare, the first step in the direction is the abolition of all private monopolies. That would mean complete nationalisation of the Banking System of the country, which would be duly followed by the abolition of private ownership in the basic industries like Iron and Steel, coal mining, aircraft, automobiles and tractors, electrical machinery, heavy machinery ; and also the abolition of powerful monopolies like Jute, Tea and Cement Industries.

The process of abolition of private ownership should then extend towards other monopoloy concerns until a stage is reached when private enterprise is restricted to those sectors of activity wherein it is justified on economic grounds. [28]

[28] Once the long run role of the State is clearly defined as regards all the economic activities of the community, the problem of transition does not offer any special theoretical difficulty. It becomes mostly a matter of political strategy, dependent on the ideology and strength of the political leadership that assumes power. All the same, it must be mentioned that there are strong economic arguments in favour of a speed transition.

The authors of the Bombay Plan have rightly pointed out that in the industries manufacturing war materials and in vital communications such as Posts and Telegraphs, State ownership is necessary. But this is by no means enough. All Public Utilities, Railways, Airways, and Power Distribution and particularly activities concerned with the vital interests of people such as Public Health, Education, Scientific Research, Social Insurance and such others have no case for private ownership. Further, there can be no going back from State ownership to private ownership in monopolistic enterprises, even if "later on private finance is prepared to take over these industries".

This need not mean a programme for collectivism. The authors have a clear bias in favour of private enterprise ; they desire that private enterprise should be preserved in as many spheres of activity as it is desirable.[29] We agree that wherever conditions of free competition could be created by the intervention of the State, the State must do so and allow private enterprise to operate.[30] This would mean that there need be a sacrifice of the optimum proportion[31] to the degree which is socially permissible. But, under no circumstances, would private enterprise be allowed to develop into vested interests or exercise social dominance. Further, wherever, private enterprise is permissible and its relative efficiency is in question, there should be provided an equal chance for both State and private enterprises, in order that the more efficient one may survive.

A successful functioning of the economic system would need an effective operation of the necessary controls.[32] The authors have clearly illustrated the various forms that State control may assume. But, it should be remembered that

[29]Most of the consumer goods industries fall within this category, *e.g.* food stuffs, toilet, household requisites etc.

[30]For example : By a proper policy of regional distribution and location of industries.

[31]Optimum proportion is defined as the one based on strictly economic considerations (*viz.* maximum efficiency and minimum waste) without any bias in favour of either the State or private enterprises.

[32]The question of management offers no special economic problem, once the nature of ownership is clear. It becomes merely a matter of technical convenience whether it should be managed by the State, or public corporations, or private concerns. The decision could be based on the individual merits of each enterprise.

once the question of ownership is successfully solved the operation of controls can be greatly simplified. The crux of the problem of planning does not lie so much in exercising adequate controls as in setting out a clear and correct division of economic activity between the three sectors, *viz.*, State-owned enterprises, State-owned and private-owned enterprises, and private-owned enterprises.

It is of the greatest import that there should exist powerful control over the economic activities of the State, in order that it may not tend to become a monopoly. This is a complex political and sociological problem. But it might however be mentioned that genuine consumers' cooperatives, Trade Unions, Associations of private traders, and of farmers, and such other organizations—all of them enjoying free democratic rights—may act as powerful engines of public opinion and also supervise the activities of the State.

The central idea of this paper is best expressed in these lines of Mr. A. P. Lerner : "Pragmatic as contrasted with dogmatic collectivism is very close to the point of view of the liberal capitalist who is in favour of State activity wherever the capitalist liberal ideal of perfect competition cannot be made to work. So close indeed is the *rapproachment* between the two that the differences are to be sought outside the institutional order that is advocated by both pragmatic collectivist and the liberal capitalist. The former suggests that collective organization be applied except where competitive enterprise works better in the social interest. The latter favours the restoration of free competition wherever possible and would permit collective organization where for technical reasons this should prove impossible. Both come to the same thing".[33]

[33]A. P. Lerner : *Economics of Control*, p. 4.

A CRITIQUE OF THE GANDHIAN PLAN

BY

SHRI NARAYAN AGARWALA

The *Gandhian Plan** written by Principal Shriman Narayan Agarwal is one of the three important unofficial blueprints for the country that have been published since 1944 and has aroused considerable inquisitiveness and received good attention because of the fact that it seeks to translate Gandhian ideals "in terms of modern political science". It makes a "comparative study of the charkha economics based on non-violence and the industrial economics which to be paying must be based on violence", and concludes that former is to be preferred to the latter.

Principal Agarwal thinks that so far no plan in our country has cared to plan according to the "cultural and sociological foundations" of the country. Merely copying western plans will not do. "We must evolve an indigenous plan with its roots firm in the Indian soil."

Principal Agarwal is of opinion that principles of planning are three, namely, nationalism, democracy and livelihood; and all the three types of plans that we have so far in the world—Nazi, American and Russian—fall short of these ideals. "The last one satisfies to a great extent at least the last principle of livelihood. But merely livelihood is not enough; there must be freedom and scope for the development of the individual. What then is the alternative? The solution lies in simplicity, decentralization and cottage industrialism." And it is from this point of view that Gandhian ideas have assumed great significance these days.

"The chief objective of the plan is to raise the material as well as the *cultural* level of Indian masses to a basic standard of life within a period of 10 years". A basic standard connotes the availability of all the basic necessities of life together with the minimum comforts. This includes a well-

**The Gandhian Plan of Economic Development For India* by S. N. Agarwal, Principal, Seksaria College of Commerce, Wardha; published by Padma Publications Ltd., Bombay.

balanced diet, sufficient food, housing accommodation, and educational, medical and recreational facilities. In order that every one should have access to basic necessities of life, it will be necessary to increase average annual income to Rs. 72 per annum or Rs. 6 per month. "This could be done *only* by organizing the villages into more or less self-sufficient co-operative communities and by undertaking the development of agriculture and cottage industries on scientific lines" (p. 58). It might be enquired as to what is the basis of Principal Agarwal's calculation and how will a man get cloth at the rate of 3 annas per yard which may be durable enough so that he may need no more than 20 yards in a year. Moreover, all his calculations of cost and minimum income are based on prices ruling in rural areas. Will he then like to prescribe a different and higher rate of minimum wage to the urban workers or shall like them to live below the minimum standard prescribed by him for villagers. Principal Agarwal says "Recurring expenditure on house maintenance, medicine charges and other miscellaneous items would approximately amount to Rs. 8 per head per year." That comes roughly to annas eleven a month. Perhaps it is too obvious to need any elaboration to show that this is a very paltry sum and average expenditure will be more on this head. Principal Agarwal has not elaborated this point and, as it is, we do not agree with him and think that a man shall not be in a position to have access to basic necessities of life in Rs. 6 a month. He will need more. Here it is pertinent to mention that though Principal Agarwal makes a provision of "housing accommodation of 100 square feet for each individual" he does not assign any money for construction of houses in his budget. Does he then imply thereby that everyone shall build his own house and purchase land by his savings ? Can he at all save ? We will like Principal Agarwal to make this point more explicit or to revise his budget so as to make it more convincing.

Principal Agarwal is in favour of 'balance economy' in the sense that agriculture and industries (except large-scale key industries) should be integrated and allowed to run together and does not favour establishing a fixed percentage for each. We perfectly agree with him on this point for there is no economic justification for limiting either sector of our economy to a prescribed limit. The development of each must necessarily be decided by the principle of equi-marginal utility. But we do not agree with him when he

advocates the production of all consumption goods by means of cottage industries and preaches the maxim of self-sufficiency with complete disregard to the advantages of localization of industries. To think that large scale industries necessarily lead to demoralization of the workers, blunt their initiative and reduce them to a mere cog-wheel is not quite correct and history does not bear testimony to it. Russia is a glaring example to dispute this fact. Even in capitalistic countries there have been instances where people have risen to highest ranks from the level of working class. Again it is wrong to a argue that large-scale industries will lead to unemployment and crisis. Russia has amply shown that all these defects are not the outcome of large-scale industries but of our present political and social structure of the society. So what we should condemn is not the large-scale production but the social and political structure. Large-scale industries, as a matter of fact, have the advantage of satisfying all our wants with diminished hours per day per head. So if we take resort to large-scale production we will get more and more leisure which we can utilise for recreational purposes and for our moral and cultural advancement. Spinning wheel or cottage industries will not necessarily raise the cultural level of the workers and make them more free.

As regards agriculture Principal Agarwal lays down that the country should, as far as possible, "be made self-sufficient with regard to food crops and raw materials for industries. Only surplus produce should be exported to other countries. The present system of commercial farming which is dependent not on local needs but on distant markets, should gradually disappear." We perfectly agree with Principal Agarwal on this point—a point which, on the one hand, criticises the present-day Government policy of encouraging exports of raw material and food crops while people are dying in the country; and, on the other hand, is free from the wrong agricultural policy advocated by the Bombay planners of adopting autarky in the field of agriculture. We also agree with Principal Agarwal when he advocates that our "primary objective should be the provision of adequate and nutritious food for the entire population." But we wholly disagree when he advocates that different regions should be made self-sufficient in food stuffs and raw materials "in order to avoid undue strain on the means of transport" (p. 61). We fail to appreciate the logic

of Principal Agarwal in this. For the fear of running a few more lines, he proposes the giving away of all the advantages of localization, no matter the consumers may have to pay higher prices because of rise in cost of production. Had Principal Agarwal given any other plausible reason we might have appreciated his argument. As it is the argument appears unconvincing. Then what is the warrant that the means of transport will be unduly strained if we allow the agricultural commodities to grow according to the least cost principle ?

Coming to a detailed discussion of his agricultural planning, we find that many of his proposals are inconsistent, impracticable and beset with many difficulties. He advocates nationalization of land on the payment of a reasonable compensation of the title-holders after minutely scrutinizing their titles to land. "Many plots of land have gone over to the landlords owing to defective law or callous usury. The present owners of such land will not deserve any remuneration" (p. 63). But we fail to understand how can we know and prove convincingly in a court of law, the causes of alienation of land because of defective law and usury ? Who can say that at a particular time such and such law was defective ? Even if we agree for a moment that we know that a particular law was defective, will it be justified from the point of view of equity, justice and law to punish persons in retrospect. We do not thereby imply that we advocate the continuance of the present system. What we mean to say is that Principal Agarwal's scheme will prove completely impracticable and futile. His second proposal, namely, the levy of succession duty of 50% on capital value of land suffers from a mathematical fallacy of an elementary nature. He thinks "in this manner, private property in land will automatically be ended in about two generations" (p. 63). But will it ever end in this way ? We wish Principal Agarwal should have paused twice before making such statement.

Principal Agarwal advocates that land-tenure should be fixed in kind—about 1/6th or 1/8th of the total produce. Undoubtedly it would be very convenient to the cultivators. But it will bring about great uncertainty in the Government Budget which in the true sense will become a "gamble in rains." If that were so, not only local but also international agricultural conditions will begin to exert undue influences on the finances of our Government and this

will reduce the power of the Government to withstand difficulties in emergent and abnormal situations. Payment in kind was possible in backward times when nations of the world had not come quite close because of the undevelopment of means of transport, when functions of the Government were very few and rulers had large treasures to invest in times of emergency. These days when none of the above conditions are existing, payment in kind will not be disadvantageous but definitely harmful to our national economy.

Principal Agarwal advocates consolidation of holdings on voluntary basis and co-operative farming to meet out the defects arising out of subdivision and fragmentation of holdings. He also wants that plots below 20 acres should not be allowed to be partitioned. At the same time he is against mechanizing agriculture (p. 68) as he thinks it will not be economical because our size of holdings is very small. We hope that Principal Agarwal is probably in know of the fact that a plot of land of 20 acres can very well be cultivated by most up-to-date agricultural mechanized implements and tractors. It appears Principal Agarwal is not sure that his proposals of consolidation and regulation of partisan below 20 acres are practicable or possible.

Principal Agarwal says that if the minimum fixed for a plot of land is, say, 20 acres, and an owner of 20 acres has two sons who want to separate, one of them would have to purchase the other brother's share. "The land cannot be divided into two plots of two acres each" (p. 64). It appears that in his rush and enthusiasm for advocating remedies, he has forgotten a very pertinent fact that if none of the brothers has ample money to compensate the other, what will happen? Or if both want to take the land and want the other to go away, what will be done? We think these possibilities would not be exceptional but most common. Unless some provision is made for these difficulties Principal Agarwal's plan will not work.

A very funny proposal of the Plan is the provision for Agricultural Insurance. At the outset we will like to ask if Gandhiji will favour insurance. So far in all his public speeches and writings he has spoken against insurance. We are not sure, nay we have grave doubts, that Gandhiji will approve of it. Even if we forget this for a moment and come to the provision itself, we find

Principal Agarwal advocating that "agriculturists must be insured by the State against famine, floods, water shortage, frosts, pests and cattle diseases. The farmers should be allowed to pay their contribution in kind. Responsibility for agricultural insurance should lie with the Provincial Governments" (p. 69). This proposal is very good on paper. But we will like to ask as to how the Provincial Governments will fix the premium rates unless the risk is ascertained? And is there any way in which it can be ascertained at present in India? It is true that agricultural insurance is common in many European countries. But we cannot imitate Europeans in all cases unless we develop similar conditions in our country. So long as attempts are not made to check uncertainty of agriculture no amount of wishful thinking can help us. If the Government makes the folly of introducing this measure at present, either the government will run bankrupt and our whole national finances will be jeopardised or the premium will be so stupendous that agriculturists will not be in a position to pay it.

Principal Agarwal has correctly advocated the development of 'Allied Industries to Agriculture' as, we think, it will make agriculturists monetarily strong. Here it will be necessary to mention, what Principal Agarwal has taken pains to show, that "cow is to be preferred to the buffalo" (p. 71), a recommendation which he repeats at several places in the course of his book so much so that this may almost be called an anti-buffalo plan! He, however, does not pause to consider as to what will happen to the poor dumb buffaloes who will thus unceremoniously be displaced. Gandhiji would not like them to be shot down because he follows non-violence. Principal Agarwal will not employ them because they are inferior and inefficient. They must not be retained as parasites because that would put the economy to unnecessary strain. They cannot be given as gift to foreign nations because nobody would accept a national liability. Then what will happen to them?

Principal Agarwal says that citizens living under the Gandhian Plan will use a particular type of lantern, which he calls 'Magan Dipa' (p. 77) for lighting purposes and thus will not be allowed to use electric bulbs. But at the same time he maintains that "electricity could also be used for certain agricultural processes and cottage industries" (p. 79). It is not easy to appreciate why should he agree to the use of electricity merely for production and not for

lighting purposes. It is also difficult to appreciate why should a worker having electricity in his cottage or farm must be disallowed to put up an electric bulb to get light in a cheap and convenient way rather than purchase a particular type of lantern, which has won the admiration of Principal Agarwal.

Principal Agarwal wants education to develop and advocates that Wardha Scheme should be adopted. "The management of basic schools should vest in the village Panchayats." University education should be devoted mainly to research work and higher technical knowledge of different subjects. "The State Universities should train specially those youngmen whose services may be required by the State. For example, Training Colleges for doctors, nurses, teachers, engineers, rural workers etc., should be started by the National Government. For all other branches of learning, private enterprise should be encouraged" (p. 90). Does it mean that Principal Agarwal does not want University education in Arts and Commerce ? If that is so we completely disagree with him and, we are sure, many others will disapprove his view. There is no justification whatsoever in condemning higher education in Arts and Commerce as useless. Had Principal Agarwal given reasons for his view, we could have been in a position to understand his point of view. We will like him to justify his stand.

Some startling propositions are to be seen with regard to position of urban towns in the Gandhian Plan. Principal Agarwal advocates that attempts should be made to decentralise large-scale and key-industries which are at present centered in towns ? But we will like to ask Principal Agarwal that is not a fact that wherever they go a town will spring up ? How will he help this ? His assertion that "problem of urban congestion is comparatively insignificant in our country" is quite incorrect which even Mahatma Gandhi will perhaps be the first man to differ as is evident from his reaction when he visited Ahmedabad slums and told the corporation members there that it was a matter of shame to them. It is an open fact that Bombay and Calcutta are even more congested than some of the big industrial centres of the West.

As regards the provision of food and raw-material to urban areas, Principal Agarwal advocates that "from the standpoint of maximum self-sufficiency, the towns shall depend for their necessaries on the neighbouring villages rather than on distant towns and provinces. Of course, in

cases of failure of crops, floods or other emergencies, these small economic units will have to be modified and enlarged" (p. 96). This means that limits of every self-sufficient unit shall be constantly changing and it may be quite possible that in case of a widespread failure of crop, the unit may extend to the whole country. That being so we fail to appreciate the desirability and necessity of having self-sufficient village units when it is difficult to maintain a fixed boundary for them. In addition to this we find it difficult to see as to how the boundary of a self-sufficient unit shall be fixed in case of an emergency or a calamity. Does Principal Agarwal think of automatic adjustment as we find inherent in the theory of capitalistic countries based on price mechanism or a deliberate adjustment ? If the latter, what authority does he propose to set up and will it be possible for that authority to know actual statistics and limit a boundary ? To us it all seems not only difficult but impossible.

With regard to currency, Principal Agarwal advocates radical reorganization. "The State shall 'manage' national currency in such a way that the prevailing cash nexus is abolished" (p. 101). "The State will control exports. imports, and international banking, and expand or contract the currency in accordance with the volume of internal trade and commerce. In this way, the stability of price will be maintained" (p. 102). History bears ample testimony that no society which has attempted to dispense altogether with cash payments has any success sufficient to commend it to a detailed study. Primitive forms of communism, innocent of any but the simplest monetary system and using it very sparingly, have indeed a most venerable history. If success were synonymous with power to survive, we may endeavour to do away with money economy. But those societies were indifferent to what may be called progress and we should not care to take lessons from them unless we want to survive like them.

In recent history, we remember, two attempts were made to do away with money altogether. The one was the idealistic community formed and organized by Owenites and the second was the "period of moneyless accounting" in early days of Bolshevik rule. Both are among the curiosities of economic history and both came to grief. We, in India, should not commit the same folly.

On the whole the 'Gandhian Plan' gives us an impression that the author has tried to suggest remedies for all

defects of our national economy from Gandhian point of view. But it does not appear to have succeeded in assimilating and knitting them in a well coordinated plan and that is the reason why we find so many contradictions. Moreover this book does not give any impression of being a budget of our national resources and requirements which is what a plan must be. About half of the book is taken up in discussing Gandhian ideals ; and the later half, which seeks to evolve a plan, discusses the application of Gandhian ideals in certain special cases. The book is further vitiated by laborious and text-book type lengthy discussions of simple and well-known facts available in any book on Indian economics. As it is the book will very likely fail to carry conviction to the most of its readers.

PROBLEM AND POLICY OF GOLD SALES

BY

P. C. BANERJEE, M.A.

1. *INTRODUCTORY*

The enthusiasm which the Indian Government showed in committing a series of monetary blunders and confusion in the early period of the war, resulting thereby in a total upheaval and topsy-turvydom of the country's whole economic structure with the consequent results of inflation, privation and famine, is lately being followed by an over-enthusiasm on their part to rectify the evil consequences of their past unwise actions. But while burying one problem they are unearthing another and the new muddle sometimes brings home further catastrophies which make the financial position of the country from bad to worse. We agitated against the inflation[1] and the result was a series of direct and indirect taxation in the plea of anti-inflationary measures, no matter whether the surplus purchasing power was to be had from the sources where there were no surpluses at all. We resented the scarcity of consumer goods and the result was the Government's early decision to import them from outside, with the least consideration for our nascent industries that would be injured by this. The public complained of discomforts in a railway journey on account of over-crowding in trains and the Government gladly contemplated to increase the railway fares and that too in the name of anti-inflationary measures.[2] Our monetary experts raised a vehement cry of protest against our present system of war finance and demanded gold instead of paper sterling from the allied countries for their war purchases in India and now both England and the United States of Ame-

[1] In this connection, a reference may be made to my article, "A Study in Inflation and its Remedy", *Calcutta Review*, July, 1943.

[2] The present writer has contributed a series of articles from time to time (such as, "Increase in Railway Fares and the Problem of Inflation", "Problem of India's Dollar Balance", etc.) to the *Amrita Bazar Patrika* (Allahabad Edition), criticising the Government's various financial and economic policies during the war.

rica have been selling gold in this country for the last two years and meeting a part of their war expenditure in India with the proceeds. Moreover, the sale of gold again "ranks as an anti-inflationary measure", as the Finance Member declared during the Budget debate on the 7th March, 1943. But unfortunately, in spite of so many blessings which the present gold sales offer, we still vehemently protest against it and earnestly urge the Government to revise the policy. For although, apparently the gold sale seems to be a blessing, in reality the policy behind such sales is as injurious to India as it is beneficial to England and America. There is nothing new about such unsound monetary policies of the Indian Government and the Indian monetary chronologers are well acquainted with such dubious financial games. The history of Indian currency is not a history of merely economic events. It is a sad commentary on the politico-economic situation in the country and a pathetic struggle between an omnipotent group of foreign vested interests and the Indian public. What is England's meat has been on most occasions proved to be India's poison and as in many other events of Indian economics in the past this has again proved to be so in the matter of gold sales in India at present.

2. *WAR AND GOLD PRICES*

In 1931, under the pressure of circumstances England was forced to abandon the gold standard and her sterling depreciated to a certain extent. Our rupee remained linked with sterling and therefore it also depreciated to the same extent. The depreciation of sterling, leading to a depreciation of the rupee brought about an increase in the rupee price of gold from Rs. 21 per tola to Rs. 35 per tola as soon as England went off the gold standard in 1931. Thus while the prices of all other commodities fell to an abnormally low level during the depression, the price of gold showed a sudden rise. Thenceforth began the export of gold from India which ranks as an important problem in the history of Indian monetary problem. During the present war owing to a drastic internal depreciation of the rupee due to inflation, gold being a commodity its price also rose like that of any other commodity. Since gold is not only a commodity but also a store of value hoarding and speculation became rampant in this case. Hence the price of gold reached the level of as much as Rs. 100 per tola in the

middle of 1943. The Government then launched its anti-inflationary campaign and passed an Ordinance to check speculation in gold. Since then gold prices began to recede specially due to the improved war situation. Recently it has again shown a sudden rising tendency. Of this, later.

While the price of gold in India has increased by leaps and bounds during the war, in England and also in the United States it has shown only a small increase above the pre-war level. The rupee price of gold in those countries is near about Rs. 42 per tola. This is because currencies of England and America have not depreciated to the same extent as the rupee and like the prices of other commodities, the price of gold in those countries has increased to a small extent during the war. The question may be asked, how is it that the lower price of gold in the world outside is not putting a downward pressure on the price of gold in India? The reason is however, very simple and easy to explain. Our present rate of foreign exchange is a pegged ratio and according to the prevailing price levels in the United Kingdom and India, the present ratio of 1s. 6d. to the rupee is an abnormally high ratio. The present writer has in a recently published pamphlet[3] calculated how the external value of the rupee has fallen from the official rate of 1s. 6d. to the level of about 10d. during these war years. To this extent then the rupee is overvalued. It means, in other words, that the quantity of gold which is roughly available for 10d. in England is available for one rupee in India. Had the rupee found its natural level and had free imports been allowed, the rupee price of gold in England would have been the same as, and not lower than, what it is at present in India. Even if only free imports of gold were allowed (*which, however, is not the case at present*), the exchange rate remaining at the present high level, high prices of the metal in India would have encouraged its heavy imports and thus the supply being thereby increased, the price of gold would have also come down substantially and an adjustment between the world and Indian prices of gold would have been achieved. The reduction in the rupee price of gold would have also brought about a sympathetic fall in the prices of other commodities to a certain extent in India, and gold imports would have

[3] *The Ten Pence Rupee.*

thus really worked as an anti-inflationary force. We shall return to this aspect of the problem towards the end of our paper.

3. *THE MYSTERY OF GOLD SALES*

From August 17, 1943, the Reserve Bank of India has been selling heavy quantities of gold daily and upto the end of February 1944, according to the estimate of the London *Economist*, some 3½ million total amounting to £20 millions in value have been sold out. In the earlier stages the Reserve Bank of India used to limit its sale to 30,000 tolas per day, but it gradually increased the limit and sometimes the Bank sold as much as 3,00,000 total of gold in the course of a single day. But although the sales of gold were a momentous event in the history of the Indian market, the public was kept in the dark as regards the sources of gold supply and the purpose and policy behind gold sales. The Finance Member, when he was asked about this in the assembly in November 1943, declined to say anything on gold sales 'in the public interest.' Our anxiety was at last allayed a little when in the second week of February, 1944, we heard from him that those sales were made on behalf of His Majesty's Government and also U. S. Government, both of whom provided this gold from their own resources and that they had utilized the sale proceeds for meeting their war expenditure in India. Then came the Budget speech of 1944 on the last day of February and Sir Jeremy announced before the House that "These sales afford an age long alternative to those who do not for one reason or another wish to invest in Government securities notwithstanding the advantages of the latter over investment in gold." About the sources from which the Reserve Bank was supplying gold, the Finance Member did not say anything more than what he had stated three weeks earlier. His eyes were suddenly opened to the anti-inflationary value of gold, and in keeping with the abnormal anti-inflationary zeal which he has developed since the middle of 1943, the Finance Member appreciated the gold sale, as "it has," according to him, "materially supplemented other anti-inflationary measures."

4. *THE MYSTERY UNVEILED*

If gold is being provided by the U. K. and U. S. A.

from their own resources, if it is being used by them for partially meeting their war expenditure in India, and if the sale of gold is an anti-inflationary measure, as it helps in mopping up surplus purchasing power, why then should we resent such a beneficial policy? The public demanded during those hectic days of inflation that India should not be paid in sterling but in gold. Was not that demand being partially met? Previously the United States used to pay us in Dollar for all their purchases in India; but the dollars went into the Empire Dollar Pool and the U. K. paid us sterling in exchange. The United Kingdom, on her part, paid in sterling for all her purchases in this country, which remained blocked and against this blocked sterling balance paper currency was being issued by the Reserve Bank in this country. But the system of War finance against which there was so much of loud protest has now been definitely improved. About the present system, Mr. C. E. Jones, the Finance Secretary, said on the 15th March, 1944, in the Council of State that the U. S. A. Government obtained rupees partly by selling gold in India through the agency of the Reserve Bank of India and partly by selling dollars to the Reserve Bank and the Imperial Bank. Purchases in India on behalf of His Majesty's Government were paid partly from the proceeds of gold sales in India and partly in sterling. All these show that gold is now at least playing some part in the settlement of our transactions both with the U. S. A. and the United Kingdom. Why then do we protest against such a policy of gold sale which kills two birds with one stone? There are however weighty reasons for such an attitude.

The mystery of the gold supply which was for months kept a closely guarded secret has recently been unveiled in the course of a discussion in the Union Government Parliament, Capetown. It is learnt that gold is being supplied by South Africa at a far lower price, whereas the United States and the United Kingdom are selling it in India through the Reserve Bank at a very high price, thus making substantial profits. A question may arise, why is not South Africa directly selling gold to India at a profit? The reason has been supplied by Mr. Hoffmayer, the Union Minister of Finance, who observed in the Union Parliament that in 1940 South Africa entered into an agreement with England to sell all its gold to the Bank of England at £8-8-0 an ounce for the duration of the war. Now that gold is being sold in India at a price up to sixteen

pounds per ounce by the Allies thus yielding a profit of hundred per cent. A member of the United Party asked the Union Minister of Finance, if they were in a position to "sell gold to India at a high price, so that in return they could purchase calico which would be made available to the natives at a saving of 60 per cent." But the difficulty in the way is the previous contract made with the Bank of England. The Empire's elder statesman, Field Marshal Smuts has, however, raised his objection against selling gold in India on the part of South Africa on moral grounds. In his opinion, the free gold market in India is a black market and, therefore, the Union of South Africa did not wish to participate in it. This implies that Great Britain and the United States have not only been indulging in profiteering but have also openly been operating in the black market for gold in India !

The British people have been naturally trying to find a strong justification for their conduct. Mr. Oscar Hobson, the City Editor of the 'News Chronicle' wrote,[4] "Materials which Britain buys in India with the proceeds of gold sales have risen in price and though we may seem making a good profit on re-sale of South African Gold it is in fact quite illusory." Having mentioned the existence of the previous agreement between South Africa and the Bank of England, Mr. Hobson further observes with reference to the complaints made by South Africa against the resale of gold at higher price in India that

"On a purely objective reading South Africa does not command a convincing case, for in the first place the one reason why gold is quoted so high in India is that American and British Governments are prepared to buy the metal in unlimited quantities at a fixed price. In the second place this gold which is being sold in India provides enough rupees to meet a small fraction of the British Government's expenditure in that country."

But in spite of the self-righteous attitude of the British newspapers the resentment felt by South Africa is becoming more and more acute and she is now eager for the termination of the agreement with the Bank of England. Only the other day, more startling news was reported from Capetown. During the discussion on the

[4] Reported by the London correspondent of the *Amrita Bazar Patrika* in the "Patrika," April 10, 1944.

taxation proposals in the House of Assembly on the 17th April, 1944,[5] Mr. A. J. Werth of the Nationalist party urged strongly the need for revising the agreement with the Bank of England, so that the Treasury could be assured of the benefit of the rising price of gold. It was further revealed in the course of discussion that the Bank of England was still paying 171 shillings per fine ounce and was selling to America at 174 shillings making a profit of three shillings per fine ounce. The Bank of England was also selling South African gold to India at 320 shillings per fine ounce and not in black market as has been suggested but in the legal open market.

5. *SUDDEN RISE IN GOLD PRICE*

The Reserve Bank of India at first favoured a gradual fall in the gold prices and when it entered the market as a great seller of gold, the rate came down from Rs. 78 to Rs. 71 per tola. The Reserve Bank was selling gold at Rs. 71 in unlimited quantities. From March 1944, in order to meet the objection that the existing system of sale attracted only the wealthy people, the gold began to be offered in one and five tola bars at Rs. 71-4-0 per tola at Calcutta, Madras, Nagpur, Delhi and other places in order to encourage small investors so that the sale may have an anti-inflationary effect.

For a long time the Reserve Bank of India was in a position to make the market rate follow its own selling rate, although for the last few months the silver market was moving independently of the gold market. Towards the third week of March 1944, however, an unexpectedly heavy demand for gold became visible in a number of centres and the Reserve Bank was faced with speculators. People with bunches of notes in their hands crowded outside the premises of the Reserve Bank at Bombay and they were seen waiting in long queues for this glittering metal. Between the 23rd and 27th of March, the Reserve Bank sold about 15 lakh tolas of gold and the selling rate could be kept unchanged at Rs. 71 per tola. But the pressure became so severe that the Bank had to discontinue its sale on the 28th after selling 2 lakh tolas. This gave a definite indication of the weakness of the supply position and the market

[5] Reported in the *Amrita Bazar Patrika*, April 19, 1944.

prices shot up. Next day, the Bank commenced selling for the first time in Bombay one tola and five tola bars at Rs. 74-4 per tola and changed the existing policy of selling gold. It decided to let the official price catch up with the market price and invited tenders in order to sell limited quantity of gold to the highest bidder. This was no doubt a great blunder. Instead of thus yielding to the public pressure immediately, the authorities should have continued their sale at the original price for some time more till the panic was over. Speculation became rife and the selling rate of gold touched the level of Rs. 81-8 per tola on the 30th. Fortunately, however, a little weariness seemed to have overtaken the speculative buyers and hoarders and a decline in the gold prices became visible.[6] In the meantime *Reuter's* report about the acquisition of 16 million ounces (about 500 tons) of silver from Iran with the possibility of its sale in Indian market, helped to arrest the upward trend of the public's demand for gold and also brought a decline in the price of silver which was ruling very high. Between 23rd of March and the end of the month 20 lakh tolas of gold were sold in Bombay alone.

6. *CAUSES OF ABNORMAL ABSORPTION OF GOLD*

(*i*) The Japanese aggression in the Assam Front created a panic and it reminds us of those hectic days of June 1940 when the people thronged before the Reserve Bank in order to convert their paper notes into silver coins. People seemed to be tired of their depreciating currency and considered gold as their safest investment.

(*ii*) The reference to the Finance Member in his Budget speech of 1944 to the possibility of the introduction of Death Duties Bill on non-agricultural incomes in the autumn session of the Assembly induced certain sections of the propertied classes to liquidate their investments in non-agricultural property and to invest it in gold.

(*iii*) Gold is today one of the cheap commodities in the market and people have been more conscious of this when

[6]Later on, in October, 1944, the Reserve Bank suddenly chose to follow an active policy of selling gold at low prices and in the third week of the same month, the limit for gold selling was sometime lowered to Rs. 61-8 per tola.

the Finance Member himself reminded them of this fact in the last Budget session.

(*iv*) The price of silver went out of parity with gold and the former was considerably overvalued. The pre-war parity was one tola of gold equivalent to almost 70 tolas of silver. Therefore, the bullion hoarders now find gold as a cheaper kind of investment than silver.

(*v*) The nature of the sudden rise in the price of gold disproves the Finance Member's contention, as he expressed during the Budget session of 1944 that the policy of gold sales would mop up the surplus purchasing power of the upcountry peasants.[7] It was not the peasant but the speculators and big hoarders who joined the race of buying and selling gold. In spite of the Government's so many anti-inflationary measures a sufficient amount of free cash and surplus purchasing power is still left at the disposal of a certain section of the rich people, who have been enriched by wartime inflation, profiteering and hoarding. Speculation in gold seemed to be most suitable as it could be carried on without drawing too much attention of the authorities.

7. *FOREIGN OPINION ON GOLD SALES*

This war has brought about certain changes in the U. S. gold holdings. The rising trend of the gold holdings in the pre-war years has not only been steadied but the war has actually reversed it. Referring to this subject, Mr. Leo Cherne, Economist of the National Research Institute of America, wrote some time back that the "U. S. gold stocks have dropped by 1,000 million dollars, while many other countries have found it possible to enlarge their gold reserves substantially."

He views this tendency with optimism, for according to him, "The wartime distribution of gold operates as a stabilising force which may be extremely important if inflation danger threatens post-war reconstruction."

The Gold policy of the U. S. Government and their subsequent sterilization of the world's gold which they amassed, were to a great extent responsible for the last historic depression. We, therefore, cordially welcome this

[7]For a note on this Peasant Prosperity, a reference may be made to my article, "The Agricultural Income Tax," *The Modern Review, March 1944*.

wartime redistribution of gold. But at the same time it should be clearly realised that America is not parting with her gold to the countries suffering from the evils of inflation in order to undo her past wrong or from any generous disposition. Her gold sale policy, particularly in the Middle East countries and India, is being guided purely by the motives of making high profits and actually she is selling her gold at a profit of 80 to 90 per cent. Moreover, the idea which Mr. Leo Cherne envisages in the present move for redistribution of gold is far from what is actually the case in India. In India the Reserve Bank is acting merely as an agent and is selling gold on behalf of America and His Majesty's Government. Hence, neither its gold holdings, which have fallen very low in proportion, nor its currency position are being strengthened by such sales. It should be realised by America that in order to get support for her own post-war currency plan in which gold is to play a prominent part, the Reserve Bank like other Central Banks should have sufficient stock of gold in order to meet its own share of contribution to the proposed international currency pool. But the present policy of gold sales in no way fulfils that condition.

The *Financial News* of England which has lately admitted Japanese penetration as one of the causes of the Bombay bullion boom suggests that the control of the gold market should not be relaxed. With the aid of the newly purchased Persian silver, the paper observes, the authority should have reinforced official sales of silver as well as gold. This would have brought down the price of silver and relieved the pressure on gold ; as in that case people would have preferred to buy silver at a lower rate.

According to the *News Chronicle*, however, though the sale of 16 million ounces of silver might close the gap of disparity between gold and silver prices, it is insufficient to satisfy the great demand for silver in India at present.

8. *POLICY BEHIND GOLD SALES*

There cannot be anything better than to pay in gold for war purchases in India on the part of England and America and this condition is being at last partially fulfilled now through the gold sales. But the policy and motive behind this action are not as they should be in the best interests of India. By putting restriction on the free, private import of gold the Government have severed the link between the

internal and international prices of gold with the result that the gold price in India is moving independently of the world price of gold and the lower external price is not being reflected in the internal price of gold. Thus by keeping the price of gold at an artificially higher level in India, the Government are giving facilities to the foreigners to sell their gold at an enhanced price through the agency of our own Reserve Bank. Take the case of America first. She bought up our gold at the rate of Rs. 30 to 35 during the depression. Now she is selling it to India at Rs. 70 to 80 and makes a profit of 150 per cent. Thus America meets a part of her war expenses in India through the device of speculative gain and virtually spends nothing for that part from her own pockets.

Then comes England. Her gold stocks have been seriously depleted, but she is purchasing gold from South Africa at 171 shillings per fine ounce according to an earlier contract and selling it to India at 320 shillings, thus earning a clear profit of 87 per cent! Today the price of gold in England is somewhere between Rs. 42 to Rs. 45 per tola. Even if she sells gold out of her own accumulated stock, she makes a profit of almost 70 per cent. With this huge margin of profit she also like America meets a part of her war expenditure in India.

This is not all. Today both England and America are gaining by selling their cheap gold at a higher price in India. After the war when gold prices would fall it is not unlikely that they would again buy up this very gold they are selling at present. In the transition they earn a huge profit through the speculative selling and buying and meet a part of their war expenditure in India.

9. *FINANCE MEMBER'S APOLOGIA*

The correct method for the Government of India would have been to insist to buy up the given gold at a price slightly over the market price prevailing in those two countries and sell it at a profit in India, and thus instead of acting as an agent of the foreign Governments the Reserve Bank of India should have acted as an agent of its own country. This profit on the part of the Government of India would have helped them to meet a part of their

war expenditure and thus would have also lightened the present burden of heavy taxation on the Indian public. But unfortunately, whenever any question of profit on the part of India arises, sentiments of universal brotherhood and sympathy overwhelm both the Indian and the British Governments. When the question of the gold sales was raised during the discussions in the Legislative Assembly on the 27th March, 1944, our Finance Member promptly replied that "India's financial obligations were those of an ally and not of a 'bania' ".

Well and good. But we may interject, "Who are really being guided by this 'bania' mentality today—India or the British Government ?" To sell gold in India at a price twice as high as the price that is prevailing in their own country, reveals a typical 'bania' mentality. We are also one of the allies. Why should then the other parties gain at the cost of ours ? Further, where were those liberal views just a few years back when England was buying silver from India at the price that was then prevailing in this country, although the price of the metal that was prevailing in their own country was far higher ? There is no reason why the method that was followed in 1940-42 in the case of silver purchase will not be followed now in the case of gold sales.

Recently the Finance Member has argued in support of the gold sales ; but unfortunately the argument seems to be a thoroughly hollow one. He says that even the controlled prices of the commodities in India at which both the U. S. and British Governments are purchasing their war materials today have increased more than the prices at which they are selling gold at present. For example, he mentioned that the prices of raw jute and cotton textiles were 80 per cent higher than the pre-war prices ; other commodities like tea 95 per cent higher, and things like flour have increased by 200 per cent. As against these, though gold is not being sold at a controlled price its selling price is higher by only 70 per cent.

The argument of the Finance Member is vitiated by an important fallacy. Prices are of least consideration in such cases. What is important is the amount of net profit which goes to the allied countries when they sell gold to this country, as compared to the net profit which the Indian people make when they sell essential commodities to them. When America sells gold at a profit of 70 per cent it is her

net profit. But when India sells her commodities even at a cent per cent higher price it does not follow that she is making a net profit of 100 per cent. Along with the prices the cost of production of those commodities have also increased to a very great extent and thus the extent of profit in this case is negligible as compared to that in the previous case.

Further, when the allied countries are purchasing their requirements at controlled prices in this country, instead of allowing them to follow the market rate, as is the case at present, why should not a similar controlled rate be fixed for them to sell gold in India? The best thing for the Government of India, however, will be to fix for them a selling rate for gold, after having allowed approximately the same margin of profit which we enjoy when we sell goods to allied nations and then to buy up all the given gold at that rate from England and America.

10. *ALTERNATIVE POLICIES*

(*a*) *To remove restrictions on free import of gold*:—We have already discussed why the price of gold is higher in India than in America and England. When the import of gold is allowed, this, by increasing the supply, will also bring down the price of gold in this country. Thus the allied nations will not get an opportunity to sell gold at such a high price in India and make abnormal profit. The fall in the price of this important metal may by lessening the intensity of panic also bring a little sympathetic fall in the prices of other commodities. This will then truly work as an anti-inflationary measure.

(b) Devalution of the Rupee:—Inflation in this country has brought about a great depreciation of our rupee. But that is not so much the case with dollar and pound sterling in America and England, respectively. Therefore, the rate of exchange between the rupee and sterling should now be fixed at a far lower level than the prevailing rate of 1s. 6d. which is the pre-war ratio. At 1s. 6d. our rupee is now an overvalued currency. In the pamphlet (*The Ten Pence Rupee*) already referred te, the present writer has calculated and discussed the present natural rate of exchange for the rupee and come to the conclusion that it should be near about 10d. At this rate the rupee prices in India and the sterling prices in England are at parity. Therefore,

if the rate of exchange is revised and fixed at the parity level England will gain nothing by selling her own gold in India, for she will only receive just the same price as prevailing in her own country when the proceeds of these sales in rupees are exchanged for sterling.

(c) Silver sales:—We have already observed that the Indian Government have acquired some 500 tons of silver from Iran and we all expected that it would be sold in the open market. But contrary to our expectation we now learn that it will be used for currency purposes and will not be sold in the market. Although it is not possible to judge accurately the extent of silver holdings of the Reserve Bank of India, as in the Reserve Bank's statement this item includes also rupee notes, we realize that it must have gone very low. It is, therefore, necessary that the Reserve Bank should strengthen the position of its silver reserve. At the same time it is, also necessary that it acquire a sufficient quantity of silver and resume selling it to the public. This will lessen the pressure of demand on gold and bring down its price. At present there still exists a disparity between the prices of gold and silver and the latter is overvalued. Silver sales may remove this disparity. The poor masses of India find it more convenient and cheap to invest in silver than in gold. Silver sales will therefore be another anti-inflationary measure.

(d) The Government's gold purchase :—Instead of allowing the U. S. and U. K. Governments to sell gold in the open market the Government of India should henceforth buy the entire metal at a controlled rate. This rate is to be fixed at a particular level after allowing over the prevailing market rate of gold in U. K. and the U. S. A. the same amount of profit which we are making by selling goods to them. For illustration, if the rate of gold is, say, Rs. 42 per tola in those countries and further Rs. 2 or 3 is considered the cost of transport, etc., the buying prices of the Government of India may come to something like Rs. 50 when, say, 10 per cent profit is allowed to the selling countries.

This gold the Government of India may sell to the Indian people at the rate of Rs. 55 of Rs. 60 per tola. The Government would not be accused of profiteering if the major part of the profit is earmarked for the welfare of the community or for some nation-building services in the post-war years. This will have three advantages at a time. Firstly, the price of gold will come down further

from the present level. Secondly, it will work as an anti-inflationary measure when the Government earmark most of the profits for future and do not use it to meet their current expenditure; and lastly, when these profits will be utilised in the post-war years, it will then lessen the burden of our taxation.

With a part of this gold the Reserve Bank of India may strengthen its gold holdings which have fallen these days to an insignificant level. This will restore the confidence in our falling rupee.

Another important matter from the point of view of our post-war reconstruction may be considered here. After the war we shall require enough funds to meet the demands of our various development schemes and if the Government possess substantial gold, this will form one of the important sources of Finance. The recent plan of economic development for India, as sponsored by eight eminent industrialists of the country also envisages raising Rs. 300 crores out of the required capital of Rs. 10,000 crores from the hoarded gold of the country. But while making a critical estimate of the financial aspect of their plan the present writer has tried to show how it is impossible to realise so much amount from the gold lying with the people.[8] It is, therefore, necessary that the Government should pay attention to increase its own gold holdings from now in order to make them readily available for our post-war economic development.

There is very little chance of a further rise in the price of gold in the near future. People will, therefore, not be guided by the motive of profit in selling gold to the Government in future. Nor is there any possibility of a severe depression in the years immediately after the end of the war, since this will be a period of shortages all round, so that people will not even be forced to part with their 'distress' gold as they did during the last historic depression. It is, therefore, necessary that the Government should not depend upon the public but should possess their own gold.

America should also consider India's view-point for her own interest. If she wants to make the post-war currency plan a success, which requires other countries to

[8]See "Finance for the 15-year Economic Plan," *Commerce*, 1 July, 1944.

contribute a substantial amount of gold to the international currency pool, she should henceforth allow a redistribution of world's gold supply. America's thrist for gold which she developed towards the end of the last twenties was guided by an extremely short-sighted policy. The flight of gold to America from the rest of the world and its subsequent sterilization there was a major contributory cause of the great depression No doubt, the war has reversed the graph of U. S. gold holdings which was rising steadily in the pre-war years, and today her gold stocks have dropped by 1000 million dollars, so that many other countries have found it possible to strengthen their currency positions. But the United States of America still today holds as much as 75 per cent of the world's gold stock and a further redistribution is necessary. Therefore, she should instead of selling gold in the open market in India, should sell it at a reasonable price to the Government of India, so that the latter may not find any difficulty in joining the U. S. A. Currency Plan (popularly known as the White Plan) after the war[9].

11. *FUTURE OF THE WORLD PRICE OF GOLD*

So far as the world price of gold is concerned, apart from the question in India, there is very little likelihood of an increase in the price of gold during the war, other things, of course, remaining the same. This is because the exchange rates, prices, wages and costs in most of the countries are all based on the present price of gold which is in vogue since the beginning of the war. Any substantial change in the price of gold will entail a corresponding alteration of the dollar rate and this will lead to an all-round increase in the *price level.*

As to the post-war prospect of a high price for gold it is very difficult to guess anything at present, as the above arguments would not hold true then. But after the war if the countries set the vicious spiral of currency depreciation into motion in order to increase their export trade, this will mean the fixing of a lower gold parity for their currencies. This will surely lead to a higher price for gold.

[9]Both the Keynes and the White Plans have, however, been abandoned and a new plan out of the two has been evolved in the International Monetary Conference held at Bretton Woods in July, 1944. Gold however, still plays an important role in the new scheme.

That such a possibility is not without foundation becomes evident from a writing of Paul Einzig in *Financial News* in May, 1944, when General Smuts, Prime Minister of South Africa, visited England and the question of an upward revision of gold prices was hotly discussed in the London Press. Mr. Paul Einzig wrote :

"Possibly, if there is any anticipation that exchange parities may be rigidly fixed after the war, many countries, including *Great Britain*, may want to be on the safe side by fixing a lower initial gold value for their currencies than they would otherwise. This would mean a high price for gold."

The pre-war currency depreciation and a race for devaluation, the war-time currency inflation, the consequent distrust for paper currency and a preference for tangible goods over money—all these evil effects of the paper standard have recently turned the thoughts of some of those very people, who a decade ago had questioned the continued use of gold in monetary systems, instinctively to gold. Not only as a medium for the settlements of international debts but also as a factor which exercises a controlling influence on internal monetary policy, gold is regaining its privileged position. That dynamic British economist, Lord Keynes, who once went so far as to ban gold despising it as a "barbarous relic", has recently defined it as a "constitutional monarch" as opposed to that of a "despot", while speaking as the head of the British delegation to the International Monetary Conference at Brettonwoods. The U. S. controlled price of gold is 35 dollars an ounce. But in the free market, gold has been selling at the rate of $ 60 to $ 80 an ounce. There is no doubt that the free market rate is a better guide than the controlled rate for ascertaining the true value of any commodity. There has again taken place a great expansion of bank notes in most of the countries during the war. A downright collapse of world prices will also be vehemently opposed in the post-war period. Therefore, to maintain a stable price level, an increase in the price of gold will be necessary to obtain higher ratios of gold holdings in those countries after the war. All this, no doubt, goes to indicate a bright prospect for an increase in gold prices in the international market as soon as the post-war economic and financial readjustments would begin to take place.

But whatever may happen to the world gold prices during the war and after it, these arguments are not appli-

cable to India for the present. In India the present price of gold is abnormally a high price, mainly due to the effects of inflation, and does not reflect the world price on account of her pegged rate of exchange, and export and import controls. This has already been discussed. Therefore, her gold price during the remaining period of the war and also in the immediate post-war period will be at first guided entirely by different circumstances, till at last it gets adjusted with the world price.

There was a time when a school of thought guided by the noted Indian economist, Professor B. P. Adarkar, supported and advocated the exports of gold from India. According to their contention the price of gold was sure to come down as soon as the thirst of America for the yellow metal would be quenched ; and, therefore, it was better for the Indian people to make hay while the sun shone. Unforeseen contingencies like the war and inflation have no doubt brought about a reversal of the situation and the price of gold instead of falling has on the other hand increased to a far greater extent. But Mr. Adarkar's thesis still holds true and after the war when the inflationary condition will cease to exist and also when the supply of consumer goods will increase the price of gold along with the prices of other things is sure to come down from the present level. We, of course, do not deny the fact that during the war, so long as our present system of war finance with its consequent effect of inflation is not totally changed, India like China[10] may be threatened with a further rise in the price of gold. But ultimately after the war a crack in gold prices is sure to take place and it will then adopt a falling course. No one should forget the example of the United States in this respect. In that country, it has been unlawful to own gold, except for commercial purposes, since 1933. Those, who had hoarded gold at the beginning of the depression due to a lack of confidence in the banking structure of the country, were compelled to surrender it to the Government at $ 20·67 an ounce. Ultimately, the price of gold was raised and fixed at a new rate of $35 an ounce in January, 1934. It is not for nothing that the instance of America is being stressed. After the war, the Government

[10] *Reuter's* special correspondent informed on the 21st May last that in Chungking the Government is freely selling gold at Rs. 3,250 per ounce—Reported in the *Amrita Bazar Patrika*, May 22, 1944.

of India may require a huge quantity of gold to finance its post-war economic plans and also for its currency requirements (reserve). Even the Bombay planners have proposed to raise as much as Rs. 300 crores from this 'hoarded wealth' of the country. It is not surprising if the Government of India follow the same policy of compulsory requisition as the U. S. A. did in 1933, and in that case, the fate of the Indian hoarders will be in no way better than that of those in America in the past. *This is, therefore, a timely warning to the gold hoarders and profiteers of the day who being guided by a false apprehension and short-sighted policy are now accumulating hoards of gold. There will be no end to the repentance when they will one day find that the value of their savings and hoarded wealth has dwindled !*[11]

[11]Recently, the price of gold in England has been raised by 4s. 3d. per fine ounce, according to an announcement of the British Treasury. The Treasury announces that "the price at which they will buy gold in London has been altered from 168s. per fine ounce to 172s. 3d. effective from June 9 (1945). The same price will apply to any gold purchased by the Treasury in any part of the sterling area." It should be remembered that this increase in the gold price has no bearing on the exchange policy or exchange rates. As the war has ended in Europe the costs of shipping and insurance for gold delivered from London to New York have gone down. Hence this rise of 4s. 3d. in the price of gold. The previous price of 168s. per fine ounce was based on the war-time high costs of shipping and insurance.

MARSHALL AND THE THEORY OF RENT

BY

JAGDISH NARAYAN TIWARI, M.A.

Research Scholar, Allahabad University

It is believed by many that modern economists have made a significant contribution to the theory of rent. They have discarded the differential surplus theory and substituted the specificity theory. In their enthusiasm for a new theory they have under-rated the importance of the older one. The vague writings of some of the old economists are of course partly to blame for it. In this article an attempt is made to explain Marshall's theory and bring out its implications in full detail.

The best representative of the old school is Marshall. He talks of differential surplus theory and does not even once mention the word "specificity". Specificity doctrine underlines the salient fact that rent is not associated with or restricted to land in the sense of soil. It has a wider domain. Labour and capital may have elements of rent attached to them. It is this universality of rent that the new doctrine stresses. But a careful student of Marshall knows how that great classical economist also had the knowledge of this universality of rent.

While talking of rent Marshall did not confine himself merely to land in the sense of soil. He mentions also rent of extraordinary natural ability in the case of labour and of quasi-rent in the case of locked-up capital........the first being "producers' surplus resulting from the possession of differential advantage for production freely given by nature", and the second "unnecessary profit" in the short period and "necessary profit" in the long run. In the short period the earnings of locked-up capital are unnecessary for its elimination cannot result in the withdrawal of the frozen capital. They are non-functional. They are surplus, exhibiting the nature of rent-income. But in the long period they are necessary to attract investment in those forms of capital goods—to see that "supplementary costs are incurred". Yet it is profit, "it is no part of costs

under any condition" only, "the confident expectation of coming quasi-rents is a necessary condition for investment of capital in machinery". Thus in a way it is functional, it is a surplus. So these earnings cannot be true surplus, true rent; at best they are quasi-rent. So, for Marshall, rent is a leading species of large genus. But modern economists explain this universality by their specificity theory; rent accrues because the factor is specific to the particular use. And as specificity may be found outside land, in the sense of soil, so rent is universal.

Thus though Marshall also stressed the same characteristic of rent yet his approach differs characteristically from that of the modern economists. The one exposition looks upon rent from the point of view of its magnitude aiming to measure it exactly. The other points out the fundamental attribute which is responsible for the accrual of rent. Hence there is no contradiction in theory needing an attempt at reconciliation of the two doctrines. In fact, they are theories stressing different aspects of the same economic phenomenon.

And here it must be admitted that Marshall did not emphasize the right characteristic of land, while defining that term. In his persistent attempt to stick to the representative conditions he appears to define land in the narrow sense of the soil. To him "the fundamental attribute of land is extension" and land is the free gift of nature with "original and indestructible properties of the soil." It is here that the real characteristic of land, the element of specificity, is ignored. Hence a wrong basis for the theory of rent. But in full justice to Marshall, it has to be said that he thought of "extensions" as the chief but not the only property of land. In a foot-note in his *Principles* he writes: "The fact is that its extension or rather the aggregate of its special relations is the chief though not the only property of land which causes the income derived from........ to contain a large element of true rent." Further he writes: "But neither extension nor hardness is a fundamental attribute of all things which yield a true rent." Then what is the fundamental attribute? Unfortunately Marshall is silent on this point—at least he does not mention specificity in this connection.

But if Marshall's definition of land as a free gift is rightly interpreted it will indicate its specific character. Free gift naturally implies no costs and if costs are under-

stood as opportunity costs, it means no alternative surrendered *i.e.* the factor has a single use, it is a specific factor. Thus land has its element in specificity even in Marshall's sense.

It can be questioned however whether Marshall understood costs in the sense of opportunity cost or real cost. It is true that Marshall often meant by cost real cost; but in order to understand the working of his mind in the exposition of the theory of rent we have not to examine the rent of land, as a complete blue-print in itself but in the light of his statements in other contexts—rent of labour and quasi-rent.

Talking of a head clerk in business he says "but in other cases it is of a kind to be of no value save to the business in which he already is and then his departure would perhaps injure it by several times the value of his salary while probably he could not get half that salary elsewhere"..................."that part which is transferable....... must be entered among their costs and is in a sense conjuncture or opportunity costs."

The phrase "that part" is significant for its implicit meaning. It implies that the whole may or may not be transferable—in the first case it is perfectly non-specific and even according to Marshall the whole of it is opportunity cost; in the second that part of the whole which is transferable is opportunity cost. Marshall does not seem to consider, and rightly too, the case where the whole is non-transferable *i.e.* absolutely specific. Absolute specificity is impossible. Specificity at best is a comparative phenomenon. And it is here that the modern specificity theory seems to err, laying an undue stress on "single use." Thus the conception of absolute specificity is imaginary and outside the domain of economics. Hence, the modern theory can at best be termed only comparative specificity theory. But is there any other measuring rod of comparative specificity except the differential surplus? "And if not where lies the difference in the two theories? Does it not seem obvious that Marshall is conscious of a factor being specific to a particular use? Is it not apparent that the notion of opportunity cost runs beneath his treatment of the theory of rent? Is it not correct that "that part which is transferable" is responsible for an alternative use which has to be foregone because of the particular use in consideration and thus measures opportunity costs?

So rightly understood Marshall's theory seems to be that rent is measured by the surplus over opportunity costs and this will not be fundamentally different from the specificity theory. The only fault of Marshall was that he was unduly brief and refused to stress over and over again what he mentioned once. He failed to underline his implications and make his doctrines fool-proof. He assumed too close an attention on the part of his readers; and that is responsible for many of his salient points being misunderstood.

But in our theory of rent we are not to stop at this point—to replace the real costs by opportunity costs and to measure rent by price minus opportunity cost. We must fully realise the implications of the change. As more and more units of factor (say labour) are employed the average real cost goes on rising and so the marginal cost curve also rises. But when we substitute opportunity cost conception we have to realise that as more and more units of the factor are employed the alternatives surrendered must be of diminishing importance and thus resulting in a falling costs curve. This change deserves close attention for in the whole theory of economics it can prove to be of a revolutionising character.

It is, therefore, necessary to clarify the point of falling costs curve by an example. For the sake of simplicity assume a monopolist labourer confronted with three uses, A, B, C (C being non-pecuniary use—leisure) for various hours of work. The schedule of earnings (in the case of C, it is the value of utility from leisure) from the three uses for various hours of work are as follows:—

Serial number of the hours of work	Earning in different uses		
	A	B	C
1	100	80	65
2	90	70	50
3	60	50	45
4	50	30	20

The opportunity cost of the first hour of work in A where the alternative uses can earn 100, 80, 65 is 80 and not 90 as it cannot be an alternative use for the first hour of work. Similarly calculating we get the opportunity cost schedule (given below). Obviously the marginal opportunity cost schedule gives falling curve and the marginal earnings curve or revenue curve will be given by column 3 (below) got from the previous schedule.

Serial number of the hours of work	Opportunity cost	Earnings
1	80	100
2	80	90
3	65	80
4	65	70
5	60	65
6	50	60
7	50	50
8	50	50
9	45	50

Here rent for each unit will be given by subtracting figure in column 2 from the corresponding figure in column 3. Total rent will be given by adding the respective rents or by the area between the cost curve and the earnings curve.

But the difficulty is that as the cost curve is falling we will not have necessarily stable equilibrium point as in the case of rising costs curve. In this particular case for the stability of equilibrium the necessary condition is that the slope of the cost curve is less than that of the revenue or earnings curve, with reference to the X axis (representing the units of work). Or in the particular case the marginal opportunity cost of the 9th hour of work must be above 50. This again is illogical for the opportunity costs

must go on diminishing as the better alternatives are being exhausted. Thus if the opportunity cost approach is carried to the logical conclusion we find that either it must be defective in conception or it will not be always consistent with stable equilibrium.

Thus here is the suggestion which can be utilised as a stepping-stone for discovering new theory. While we have found much meaning in Marshall's treatment we have a great task before us in developing our theory to its logical conclusion.

NOTES AND MEMORANDA

PRICE STABILISATION

In an article on the "Problems of Stabilisation" published in the *Eastern Economist* (June 1), it was pointed out by the present writer that one peculiarity in the war-time price structure in India is the existence of an enormous disparity between the wholesale price index and the cost of living index. Such a disparity requires correction by bringing down the wholesale price index to the level of cost of living index. The importance of the subject, however, justifies a further discussion, and a closer investigation would help to reveal facts which would throw more light on this topic of vital importance for the country.

Apart from the disparity between the wholesale price index and the cost of living index another peculiarity in the price structure in India is that the index of wholesale prices of manufactured articles stands appreciably higher than the index of wholesale prices of all commodities. From the figures available for Calcutta prices, it appears, that while the index number of wholesale prices of all commodities was 306 in March, 1945, the index number of wholesale prices for raw and manufactured articles stood during that period at 369. This is in sharp contrast with the price structure in U. K. where the index of wholesale prices of manufactured articles, instead of being higher, is lower than the index of wholesale prices of all commodities, the actual figures, as given by the Board of Trade, being 160 and 170 respectively.

The fact that the index of wholesale prices of manufactured goods in India is much higher than not only the cost of living index but also the index of prices of all commodities has important consequences. This is apt to exert a disintegrating pressure, and retard the establishment of parity prices between manufactured goods and agricultural products. It will be interesting to note that during the pre-war years, and also during the first four years of the war, the price index of manufactured goods was lower than the price index of all commodities. In 1939 the two figures were respectively 95 and 108. Since then, both registered

an increase, and in 1943 they stood at 302 and 307 respectively. The position was reversed in 1944 when the price index of manufactured goods shot up to 318, while the price index of all commodities came down to 298. In March 1945, the two figures stood respectively at 369 and 306.

It is but natural that the disparity between the price index of manufactured goods and that of all commodities should bring about increasing company profits, though the percentages of such profits have been different in different cases. From the information available, it seems that the highest profits have accrued to the cotton industry, with iron and steel coming in next, and sugar and tea following in close succession.

It is again significant that the wholesale price index of manufactured articles has recorded a sudden drop in April, 1945, the figure being 318 as against 369 in March. The downward trend continued even in May and the latest record shows that the present index has come down to as low a figure as 302.

While such a downward trend in the prices of manufactured goods is welcome, it should, however, not be forgotten that there is also an inherent danger in such a haphazard fall of prices. A precipitate fall of industrial prices is likely to bring about a more chaotic fall of agricultural and raw material prices and this would make stabilisation of prices more difficult, if not impossible to achieve.

In the light of the above analysis it would be clear that the recent attempts made in some provinces to stabilise agricultural prices are not likely to be rewarded with any great success, unless such attempts are accompanied by an effort to stabilise industrial prices as well. In fact the stability of industrial prices is a pre-requisite condition of agricultural price stability. And it is only in relation to stable industrial prices that agricultural price parity should be determined and prices of farm products stabilised. In an article in *Foreign Affairs* (January, 1945), Professor Brandt Karl of California has rightly pointed out that depression or prosperity in agriculture is caused chiefly by the condition prevailing in the market for agricultural products, and concluded that industries must therefore be made more prosperous.

Judged this way, it would be evident that a correct policy from the standpoint of stabilisation programme would be to bring about first of all a stable industrial price level and adjust in relation to it an agricultural parity price, instead of starting in other way round of fixing an agricultural price and leaving industrial prices to take care of themselves. It is true that for maintaining industrial price stability, some form of control would be necessary. But it should also be remembered that if controls are to achieve any tangible result, they should be planned and purposive. In this connection, one can do nothing better than recall the words of Sir Badridas Goenka who has aptly remarked: "We do not wish to see extended after the war the haphazard and amateurish controls which have hampered production without benefiting consumers."

The immediate practical step that can be taken to formulate a correct industrial price policy is to revise the rigorous provisions of the capital issue control in India. The capital issue control in India, based on the British model, did not take into cognisance India's own requirements. And the result was, as is well-known, that while prices rose high and "inflation went on unchecked, the simple process of checking inflation through increased production could not be availed of". Now that the ban on capital issue has been lifted in England, the Government of India will do well to emulate the example and relax the control of capital issue in our country. This will give the industries that scope for extension and improvements which by enabling them to reduce costs will bring down prices as well.

Summing up, the problem of stabilisation is to be viewed not from the one angle of agricultural prices, but also from the view-point of industrial prices. In fact, the object of the article has been to show that industrial price stability is the pre-requisite condition of agricultural price stability. To achieve industrial price stability, the cost of living index, the wholesale price index, and the industrial price index should be considered in their proper parity relationship. Economic control is necessary to the extent that such control seeks to establish and maintain such parity adjustments. At present however the more important duty would be to withdraw the capital issue control.

Extension of and improvement in production will make the problem of achieving price stability a much easier task.

Visva-Bharati, K. N. BHATTACHARYA
Santiniketan.

A RELIGIOUS INTERPRETATION OF ECONOMICS

Much water has flowed down the Ganges since Hutchinson, Hume and Mendavellie showed the way and Adam Smith unfurled the banner of the study of Economics in England. Since then the scope and definition of the science of Economics has been so variously been defined and interpreted that we do not have any unanimity on these points even now. The early classical view of the 'Economic Man' gave place to the study of the real man in the hands of Marshall, and Economics instead of being the science of wealth came to study the behaviour of man, *i.e.*, as to how he gets his income and how he uses it. Recently Marshall's so-called "materialistic" definition has been ousted by Robbins' "scarcity" definition and Economics is now alleged to study human behaviour as a relationship between ends and scarce means having alternative uses.

Though there is a difference among economists regarding the scope of Economics, they are in perfect agreement with regard to the end of Economics. They believe that Economics should suggest ways and means whereby an individual can best satisfy his given wants. In other words they believe that every individual should utilise given resources in a manner that may lead to the satisfaction of his wants to the maximum degree. Along with this they believe that the greater the satisfaction of wants, the greater will be the total utility gained and the higher the economic welfare. So the economists have so far thought only in terms of wants and their satisfaction ; and have not cared to think in terms of ultimate results.

Mr. J. K. Mehta of the University of Allahabad has, however, approached the problem of economic ends from this angle and has given a new orientation to the aim which Economics should try to achieve. The object of this note is to explain his point of view on this subject.

Mr. Mehta makes a distinction between 'pleasure' and 'happiness', and says that *pleasure* is obtained by the removal of pain. In it there is no positive contribution ; only the dissatisfaction that one had while his want remained unsatisfied is negatived. Satisfaction, in a sense,

is the same thing as pleasure. *Happiness* is obtained by having no want. In it there is a positive contribution and we are gainers. So our aim should be to get happiness and we should not endeavour to get either pleasure or satisfaction. But the question arises as to how can we have happiness ? It is by having no wants. So we should learn to discard wants and should aim at wantlessness.

Probably few economists will agree with this view in the first instance—a view which is diametrically opposed to the traditional and avowed aim of Economics. But if the above distinction between pleasure and happiness is correct, there is no denying the fact that our conclusion is a logical one. Mr. Mehta will like to ask those who disagree, "Do you think it is better not to have Malaria at all or to have Malaria and then to remove it?" If the answer is that it is better not to have Malaria at all—as it undoubtedly will be—it will mean that it is better not to have wants rather than to have wants and then make efforts to remove them.

Some may disagree with the view that in case of satisfaction there is no positive contribution. You may not feel the necessity of a want and the dissatisfaction to you because of this may be zero, but if you get a car the satisfaction to you may be very high. But in this case when you were not feeling the want of a car, the demand for it was already there but in a sub-conscious state. And in those cases when your wants remain in a sub-conscious state you may get increasing satisfaction ; but once your want has become conscious the satisfaction that you will derive out of it will be equal to the pain that you had. So for a little gain that you may get at one time it is no use becoming a loser (in the sense that you are no positive gainer) for all times. So the essence of the argument remains unaltered.

There are some economists who think that we cannot discard all wants since we must consume 'necessaries for existence' in order to remain alive. But it may be logically proved that there is nothing like necessaries for existence. Wheat is not essential for us for we can take rice or milk in its place. Similarly water and air are not necessary for our existence for we have seen persons who have got themselves buried inside the earth for a number of days and have come out alive. Also we know instances of many *sadhus* and *sanyasis* who have remained lost in meditation for years together without food and drink. So

it is possible for us to discard all our wants; it simply requires a little practice.

What should we do to train ourselves so that we may learn to discard wants? Wants should not be forcibly checked for that will give us greater dissatisfaction. We must feel to discard wants. In other words we must develop in us a want of discarding wants and should constantly endeavour to satisfy that want. This will help us to achieve our ideal.

But will it be possible for us to discard all our wants in one life time? No, we cannot discard all our wants all atonce. We shall have to proceed slowly and gradually. The more intense the want of wantlessness in us, the larger will be the number of wants which we can discard. If we are not in a position to discard all our wants in our life time, we shall have to take birth again and start where we left in our preceding life. A time will come in our evolution when we will have no wants. And philosophers tell us that when we have reached that stage of development we need not take birth in this world for we would have achieved *Nirvan.* We all take birth in this world for we have certain wants which can only be satisfied by taking the shape of a man.

There is only one way leading to this goal. It is true that different persons are differently constituted and they differ temperamentally. But all of them will have to follow one path, the only difference will be that they will have to start from different places. Some will be nearer the ideal, others more distant. So some will have to traverse a smaller distance while others a longer one. But all of them must follow the same path and adopt similar means to achieve the ideal. Even a slight divergence from that path will mean going away from the ideal.

There are some economists who think that economists *qua* economists can study simply causal relationship and they should not suggest ends. But should we really refrain from setting up the ends? Mr. Mehta says that we as economists must find out the end* for we cannot suggest

*I have purposely avoided a detailed discussion of why Economics must try to find out ends because that would have led us to a thorough criticism of Robbins and other economists and would have led us to unnecessary digression which is not quite essential for the understanding of Prof. Mehta's argument But see in this connexion A. N. Agarwala, *Reconstruction of Economic Science* (Allahabad, 1945) where the issue has been ably and thoroughly thrashed out.

means unless we know the end. Not only that, we must always keep that end before our eyes and all our actions should be guided by the single consideration that we are achieving our ideal to an increasing extent. Our constant endeavour should be to discard all wants and attain happiness. But will it not lead to stagnation of all economic activity ? Yes, that is so. But we do not want more activity. The lesser the wants, the lesser the pain and the greater the happiness.

By adopting this view our Economics will become a part of Religion ; and Economics will teach the same maxims and principles which are taught in our books of religion. Then the blind pursuit for money and the greed for accumulation will vanish and we shall be happier and better. As has already been pointed out we shall, at a later stage of our development, cease to take birth in this world and shall become *one* with God.

Allahabad SHRI NARAYAN AGARWALA

FORCES BEHIND PARETO'S LAW

We can concur with Professor Bowley[1] when he says that "investigators on Pareto's Law have generally been content to establish the existence of the mathematical form, and to record the Values". Ever since Pareto enunciated this empirical law of incomes, economists and statisticians have discussed the validity of the law when applied to the income data of various countries at varying times. Pareto himself enunciated his law since the resulting graph was a straight line, when he plotted the cumulative distribution of incomes on double logarithmic paper. Generally it has been concluded that the Paretian law does not apply to lower incomes. Various objections have been raised against it and replied suitably. Some observe that the law is very crude. Prof. Findlay Shirras[2] definitely says that the law does not apply to the Indian conditions. But as pointed

[1] A. L. Bowley, "The action of economic forces in producing frequency distributions of income, prices, and other phenomena", *Econometrica*, Vol. 1. 1934. pp 358-372.

[2] Findlay Shirras, "Pareto Law and the distribution of incomes," *Economic Journal*, 1935.

out by Mr. N. O. Johnson[3] even for the rough data available for India, the Paretian line does not appear far from a straight line. It is also a well-known fact that Sir Joshia Stamp[4] was able to find out a flaw in the income statistics of England while testing the data with Pareto's law. Recently modifications[5] have been suggested to overcome some of the defects. Anyhow a survey of the work on the law, up to the present day shows that the general tendency is to test the law with the available data. No attempts have been made hitherto to go behind the law and analyse the forces if any that produce the law.

Pareto's law or any other law in economics must be the result of economic, social, physical or psychological forces, either individually or collectively, if more than one force operates.

Many of the measurements that are commonly met with follow the Normal Law to a sufficient degree of accuracy. If the whole community has the same education, environment and opportunity, and all persons work with equal zeal, and are paid by piece rates, the earnings of the community would be normally distributed. In accordance with this if the normal law were to operate, the income graph would not at all have presented a straight line to Pareto. No doubt the restraints proposed cannot be simultaneously had in practice. Actually it is observed that the distribution of income for the class of wage-earners show a strong tendency to Normality. It is evident that for the class of wage earners the above assumptions required for producing a normal distribution, hold good fairly satisfactorily. This is, of course, the reason why for lower incomes the Paretian law does not hold.

Let n represent the number of persons receiving an income x and N the number of persons receiving an income greater than or equal to x. As things stand at present, except for the lower incomes or at the lower end of the income distribution the number n of persons receiving an income x decreases with increase in x. This only means if the community is divided into two classes rich and poor,

[3]N. O. Johnson, "The Pareto Law". *Review of Economic Statistics*, February 1937.

[4]Sir Joshia Stamp, *Wealth and Taxable Capacity*.

[5]M. R. Doreswamy Iyengar, "A Variation of Pareto's Law", *Journal of the Mysore University*, Vol. 2, Part 1, 1941.

the number of rich persons will always be less than the number of poor persons irrespective of the point of demarcation for the two classes. By mere definition N decreases with increase in x irrespective of the relation between n and x. As already pointed out if n is assumed to decrease as x increases, this effect is increased all the more in the relation between N and x. Perhaps this cumulation of data will produce the Pareto line for all types of data even other than income. For example if N is defined as the number of towns having a population greater than or equal to x, the relation between N and x will produce the Pareto line. This fact has been established by Mr. Singer[6] in his study of the population distribution in Prussia, based on the developments of Italian economists.

Suppose we assume

$N = K\, f(x)$.

where K is a positive constant. Here $f(x)$ is naturally a decreasing function of x, since N decreases with x. As a first approximation we can assume

$$f(x) = \frac{1}{x^{\alpha}}$$

and we get $N = K/x^{\alpha}$ the well-known form of Pareto law. Further all the income data, that have been examined up to this day satisfy this equation fairly well. Any other form for $f(x)$ may be tried if it is supposed to represent with greater accuracy, the corresponding income pattern. Recently[7] e^{-kx} is one form suggested for $f(x)$. But it remains to be seen whether any income pattern exists that can be represented by this function. This does not seem likely, for, except for lower incomes, the cumulative distribution of incomes when plotted on double logarithmic paper will always yield a line which will be very nearly straight and in many cases will be almost exactly straight.

The property that n decreases with x is generally true in a community, as long as the aggregate receiving the income under study is not a selected group with any peculiar characteristic. For a community can be considered as an aggregate of sub-communities each receiving an income from varied sources, like the community of Government employees, industrial employees, etc. Each of these

[6] H. W. Singer, "Courbes de Population", *Economic Journal*, 1937.

[7] M. R. Doreswamy Iyengar, "A Variation of Pareto's Law," *Journal of the Mysore University*, Vol. 2, Part 1, 1941.

individually can function satisfactorily only if the number of persons receiving an income decreases with an increase in income. Perfect equality in incomes is an impossibility as is very well known, but only the degree of inequality may be minimised. Of course, we will assume here that the minimum income x is that income after which the value of n decreases with increase in x. As has been already pointed out lower incomes form an exception to Pareto's law, and naturally to this property also. Since for small incomes n may increase as x increases, up to say $x=x_0$, in which case n decreases as x increases after $x \angle x_0$. This will be true even in a socialist economy, but in that case the inequality will be small.

Conclusion. Ever since Pareto enunciated his law investigators have based their criticisms and developments on the enunciated law. Some have attempted even to discard the law, but many have carefully studied the law with reference to income statistics of different countries at different times. But attempts have not been made to go behind the law, and study the forces, if any, tending to produce it. It is only Prof. Bowley who has shown that for lower income the tendency is towards Normality. In this essay, it has been endeavoured to point out that the Pareto law of incomes is chiefly due to the cumulation of the data possessing the property that n is a decreasing function of x.

Bangalore City. V. S. ANANTACHAR

CAN WE PLAN UNDER INDIAN CAPITALISM ?

Perhaps most of the supporters of the Bombay Plan have now realised that what the plan really aims at is not a controlled capitalism—as capitalism has hardly left its cradle in India—but nursing it by freeing the same from the last vestige of feudalism, *i.e.*, zamindari system. Its authors observe that "as a general proposition it is nevertheless true that under the zamindari system the landlord has largely become a mere rentier and the system as such has ceased to serve any national interest."[1] To declare the landlords rentiers and useless members of the society but to advocate the retention of private property in

[1]Bombay Plan, Part II, p. 16.

capital in the same breath, is something which does not appear to be very logical. It may well remind one of the well-known struggle between feudal lords and business magnates—the former the controller of production in feudal society when agricultural products formed the bulk of National Dividend, and the latter the controller of production in capitalistic society where the role of capital is much more important than that of land. It seems as if the end of one historic epoch, feudalism, is about to be completed.

The Bombay Plan seems to discriminate not only against zamindars but also against the proletariat. For a considerable time the picture of distribution that will emerge within its framework was avoided. It was declared that "the question of production must come before that of distribution in a plan of economic development"[2] and we were expected to focus attention only on the former. But it was just like saying that the marriage of the boy must precede the marriage of the girl when the two are being married to each other! This did not carry conviction. Distribution is nothing but the counterpart of production. The moment a particular system of production is adopted, a particular distributive system automatically comes into operation.

The two are inseparably connected. It follows, therefore, that distribution cannot be equitable unless the relations of production are based on gross injustice. Further it is obvious that distribution cannot be made equitable without changing the fundamentals of the system of production. And yet it was exactly this which England, America, Italy and Germany aimed at when they began to "plan" their economy after the first Great War. We may briefly discuss how did they do it and with what results.

Let us begin with Great Britain. In the last Great War there was fullest Government control of all economic activity—investment, production, consumption, currency, international trade etc. After the war was over the cry of "business as usual" started and Government began to relax control in various spheres. But in 1929 when England began to feel the impact of world crisis, she could not afford the luxury of unadulterated *laissez faire* economy. By 1931, the Labour Government was discredited and a Nation-

[2]Bombay Plan, Part II, p. 1.

al Government was formed to "save the pound and the country." Apart from the monetary measures adopted by that Government which meant full "managed currency", protection was given to industry on condition of reorganising the same. Further to facilitate "re-organisation" various Acts, *e.g.* Agriculture Marketing Act 1933, and Coal Mines Act 1930, were passed which mainly aimed at restricting the supply of goods in order to arrest the fall in their prices.

So England had "managed currency", managed agriculture, managed industry in addition to the Housing Programme, the Central Electricity Board and London Passenger Transport Board. Her economy was to a very great extent controlled. But there were two outstanding defects. Firstly, it was a piecemeal planning, lacking co-ordination and a clear-cut objective in view. Secondly, the controls led to a fall in output specially in agriculture. Surely we cannot prop up both demand (which determines supply) and the prices of a commodity.

In America the experiences were more bitter. NIRA like A. A. A. gave the producers a free hand subject to the Code of the Act, which had little practical importance. Thus trusts and cartels developed in America after 1932. Naturally they aimed at restricting supplies and raising the prices of industrial products. Then the disparity between the incomes of industrial workers and those of agricultural workers increased. In industry itself it is interesting to note that wages did not increase in proportion to the increase in the efficiency of labour which was fast moving upwards due to the introduction of "rationalisation" in every sphere of economic activity. Thus the chasm between wages and profits began to get wider and wider. Here also the policy was to reduce output and increase prices. As is already well known it was mainly due to this reason that the prices of stocks and shares began to soar up resulting in the Wall Street crash of 1929 which formed the nucleus of the great World crisis of 1931.

Now we may turn to Germany and Italy. In both the countries the nature of planning was the same—fullest State control, maintenance of private enterprise, rigid control of currency exchange and international trade, subsidies, large-scale public works policy, wage reduction, fixing "fair" (which meant fairly high) prices etc. Both these countries made an appeal to the people to tighten their belt for the nation.

Germany was, of course, never a *laissez faire* country. As early as 1914, cartels had become-typical and in 1933 when the Nazis came in power they inherited an economic system already controlled by the State. The State controlled cost, prices and wages. Profit was allowed in order to accelerate production, not of consumer's goods but of capital goods and that also which served the military aim of Germany. As a matter of fact the aim of the Four-Year Plan was already proclaimed in 1936 by Hitler to be National self-sufficiency. Every sector of economic activity was controlled to serve that end. The Nazis went as far as to lay down a national diet. All these meant certainly not a higher standard of living. It meant more tanks, more bombs and more war materials. State demand for these commodities was unquenchable and this was the key to the German Plan. The entire balance of German planning rested on military preparation. It was only a caricature of planning and not planning in the true sense. Italy, like Germany emphasised on national self-sufficiency in spite of her more limited economic resources. The tricks used were the same *viz.*, wage control (which meant wage cuts), profit control (which meant no control), price control (which meant high prices), etc. Her unemployment problem was not as acute as that of Germany and there public works meant more of land reclamation, roads, etc., than of industrial activities. We need not attach much importance to the co-operative system. It had only a skin deep difference from the system of "leadership" that prevailed in German Planning.

Thus we find that both in Germany and Italy, planning in the true sense was never put into operation. What they really aimed at was simply a rigid control of economic activity which could help the Fascists to serve their war aims. The standard of living fell down, wages were drastically cut, prices were increased, profits were high even after paying the taxes to the State and nobody bothered about a proper division between present and future consumption.

The Bombay Plan seems to lead us on the way which was trodden in essence by the above-mentioned countries. It endeavours to retain the present system and preserve its fundamentals on the one hand, and tries to iron out the wide disparities between the incomes of different classes on the other, and thus advocates that "cure is better than prevention."

Its authors frankly observe, "Our approach to these problems is two-fold. On the one hand, we recognise that the existing economic organisation, based on private enterprise and ownership has failed to bring about a satisfactory distribution of the national income. On the other hand, we feel that, in spite of its admitted shortcomings, it possesses certain features which have stood the test of time and have enduring achievements to their credit".[8] Of course nobody denies the historic importance of the present economic system and none has painted achievements of capitalism more beautifully than Karl Marx. But the real difference lies in the fact that while capitalists want to keep the present system in active service merely because of its past achievements, others argue that its past achievements entitle it merely to a pension and nothing more. Further while the capitalists find it desirable to retain the present system because of its antiquity, others point out that it is due to its antiquity that it has outlived its utility.

It is really interesting to see the planners advocating the retention of present economic system and at the same time devising ways and means to hide the injury which is its necessary concomitant. As a matter of fact a majority of the proposals aim at securing minimum income. One wonders how it will affect, if it is successful at all, the *relative* position of different income groups. The other set of proposals aims at "preventing gross inequality" of income and it is there that we find the planners advocating fiscal measures. Fiscal policy helps to equalise income only after it has been received by tax-payers. So it is only a *curative* and *not a preventive* measure.

Another contradiction in the plan is that it hopes to secure minimum income by raising the general level of income. At first sight this seems to be the only sane approach to the problem. But a closer examination will show that the position of the lower income group is different from that of the higher income group. It is true that under an expanding economy even the lowest incomes do rise to a certain extent. But we must not judge the position only by changes in the absolute income. It is really the *relative income*, *i.e.* income of one group in relation to that of the other group, which is important where we are out to solve the problem of inequitable distribution. This side of the

[8]**Bombay Plan, Part II, p. 2.**

problem has not been courageously tackled by the planners. The problem becomes still more difficult when the expansionist stage of capitalism comes to a standstill. This means that the wage earners are then denied even that small increment in their income which falls to their lot when the level of income in general increases. At that stage wages can increase only at the cost of non-wage incomes. If by any chance the latter increase the relative position of the workers become even worse. Thus we find that the solution of the planners holds good *only when the general level of income goes on increasing to the point where the income of the lowest income group is equal to the desired minimum income.* This of course does not touch the problem of *relative* position of different income groups which is the real problem of distribution.

Nor is this all. Under capitalistic system when production begins to expand the disparity between the income of agricultural class and that of industrial class also becomes greater and greater. America experienced the same and all attempts to check it proved futile. Wage control remained a pious wish and profits went on swelling. Is there any guarantee that India will not experience the same phenomenon? The planners have fully realised this problem. And it is mainly to control the income of different classes of income-receivers that they have emphasised the control of the rewards of the various factors of production. While efficiency of such control may be assured in the case of wages (especially where downward trend is concerned) it is doubtful wherever the question of profits comes in. One has simply to examine the large amount of Excess Profits Tax which is being paid by the industrialists in spite of price control and all other controls. Perhaps the profits increase in the same proportion as the controls increase!

Lastly one further contradiction must be pointed out. It is about the State ownership, control and management of industries. All this sounds socialistic. But if we examine the nature of the State that is contemplated the dubious character of this proposal will be laid bare. State for all practical purposes means Government, *i.e.* those who hold the reins of administration are at the helm of affairs. That body may be a king, a group of persons or the party leaders who command a majority in the legislature. The last one is known by the name of "democracy." In fact this system is a caricature of democracy. All the political

parties are at one so far as fundamentals are concerned and they control the reins of Government in rotation as if according to plan. Any party which aims at breaking the vicious circle is declared illegal and is suppressed in the name of peace and order—give the dog a bad name and hang it. So these parties are not *qualitatively* different We know only too well how the leader of the opposition behaves in the British Parliament. Whatever proposal comes from the Government is opposed and criticised. He is of course paid for that. Such is the mockery of so-called democracy. In England Labour Government had a bitter-experience in 1931. The currency difficulties which gave a total blow to the Labour Government, were more an artificial creation of the financiers than due to the overvaluation of sterling. "Flight from sterling" was nothing but an "economic sabotage" as Prof. Laski has called it. The same trick was played by the famous "two hundred families of France" against the popular government there. Continuous transfer of huge balances put the Central Bank of France and so the French Government in a very great currency and exchange difficulty. And here also the trick proved to be successful. The State had to bow down before the vested interest. Thus the State as it is working today is only a managing committee of a certain class of people. If we examine the suggestion of State ownership, management and control made by the Bombay planners in this light, we are liable to feel doubtful if we will be able to plan under the Bombay Plan.

Does it mean, then, that capitalism cannot plan at all? It appears that it cannot, unless there is a sustained demand of war materials by the State as was the case in Italy and Germany. Needless to add that one day it is sure to explode and endanger the whole civilisation which has been so laboriously built up by our forefathers and ourselves. In the absence of this, however, we cannot plan under capitalism, so as to be able to increase wages and equalise the incomes of different groups of people in order to maximise human satisfaction and welfare.

Patna. AMRITDHARI SINGH, M.A.

CURRENT NOTES

Disposal of large quantities of scrap, salvage and surplus stores arising from the war is one of the major problems which India has to tackle along with other countries of the United Nations. It is pointed out that the range is very wide and individual items may vary from a collection of steel scrap to the most modern factories built for the production of war material and capable of easy conversion for civil industry. In terms of money the total value of stores to be disposed of may range from one to two hundred crores of rupees.

The Disposals Board set up by the Central Government in the fifth year of war has laid down the main lines of policy to ensure the orderly and efficient disposal of these surpluses. The principles underlying the operating policy are : (1) shortest and most direct approach to the ultimate consumer ; (2) use of established trade channels, etc., as far as practicable ; (3) regulation of the flow of surpluses so as to cause minimum interference with internal economy and production ; (4) wide distribution , so that the benefits are made available throughout the country ; (5) control, where practicable, of retail selling prices, in relation to current market prices ; and (6) realisation of the largest possible cash return.

The Disposals Board is a high-level body with the Secretary to the Government of India, Supply Department, as Chairman and the Secretaries of various other Departments concerned as members. The Directorate-General of Disposals, New Delhi, is the executive organisation of the Board and is responsible for executive action in respect of all stores except in regard to disposal of articles, of food and textiles, for which the existing organisation of the Food Department and the Textiles Commissioner are responsible. The Director General of Disposals is also responsible for the disposal of factories and industrial units, but not for the disposal of other lands and buildings. The Controllers of Supplies (Disposal) at Calcutta, Bombay, Madras, Cawnpore and Karachi, and the Deputy Controller of Supplies (Disposals) at Lahore, act as Regional representatives of the Director General in all disposals matters.

The categories of goods dealt with can be divided into two broad classes, *i.e.*, salvage and surplus stores. Salvage, again, can be split up into (*a*) process scrap, *i.e.*,

scrap arising from the manufacturing processes in industries and (*b*) other salvage.

Salvage is sold at the Army Depots at Lahore, Jubbulpore, Lucknow, Cawnpore, Allahabad, Agra, Delhi, Ambala, Karachi, Quetta, Rawalpindi, Peshawar, Calcutta, Kanchrapara, Ranchi, Dhanbad, Gauhati, Chittagong, Dibrugarh, Jorhat, Imphal, Ahmednagar, Avadi (Madras), Bangalore, Bombay, Secunderabad, Ghorpuri, Deolali, and other centres.

Sales are usually by auction or by advertised tender. The main heads of salvage dealt with are : textiles, cotton, wool and silk including cotton cuttings, cotton rags, garments, mosquito netting, felt cuttings, blankets, woolen rags, etc. rubber, leather including leather scrap from Harness and Saddlery Factories, cuttings, shavings, pieces and bellies, unserviceable boots, chaplies, etc., paper, including waste paper, cardboard and other miscellaneous items.

It is pointed out that salvage can be put to many uses and that considerable progress has been made regarding the utilisation of some of the salvaged materials in small industries. The large stocks of "dural" tubes usually available in aircraft scrap have been found suitable for the manufacturing of tubular furniture. Aero scrap is being used for cast ware work and a variety of utility articles can be produced from it, *e.g.* trays, plates, cutlery, mugs, ash-trays, picture and mirror frames, blotters, penholders, ink pots, coat hangers, hooks, paper weights, table lamps, window frames and fasteners, boot-trees, etc. Railways are already experimenting in the use of this alloy for the manufacture of carriage and wagon fittings.

The process of melting and manufacture is relatively simple. The finished article, to all appearance, resembles aluminium products. It is, however, emphasised that the alloy is not suited for drawing into sheets or, what is more important, for the manufacture of cooking utensils. Useful articles can also be made from aircraft parts without having to melt the alloy. At salvage depots are occasionally exhibited items like furniture, tyre pumps, rotating hospital lamps, ice boxes, buckets, chaplies, small tools, etc., all made from salvaged aircraft material.

The average sales of salvage amounted to about Rs. 28 lakhs a month recently. The total value of the sale proceeds of salvage from November 1943 to June 1945 was about 3 crores and 76 lakhs of rupees.

Now that the war has come to an end, stores other than salvage will be declared surplus in increasing quantities, after ascertaining whether they are surplus to over-all military requirements.

The sale proceeds of surplus stores up to the end of June 1945 was Rs. 55 lakhs. This, however, represents only a very small fraction of the volume of work which will now have to be undertaken. The Director-General of Disposals is examining plans for the disposal of individual major categories of goods. It is emphasised that the method of disposal will vary according to the nature of the goods and the quantities in which they are thrown up for disposal. Goods needed for civil consumption of which there has been an acute shortage during the war, may be easily released without any untoward effects on the market. On the other hand, in regard to items where surpluses are likely to equal or exceed normal civil demands, careful planning is needed to ensure that their release is arranged in a manner which does not upset internal economy and industry.

From the latest particulars available of Indo-Canadian trade, it is seen that the total of this trade for 1944 was valued at $202,672,000, an increase of $51,006,000 over 1943 and of $13,442,000 over the previous all-time high figure of $189,230,000 recorded in 1942. Imports into Canada from British India, amounting to $27,878,000, were $10,788,000 greater than in 1943, while exports from Canada to this country, valued at $174,794,000, recorded an increase of $40,218,000 over the previous year.

Imports from British India during 1944 comprised 1·6 per cent. of the total Canadian imports, the largest percentage recorded in the war years and a considerable increase over 1943 when the percentage was only 1 per cent. India's share of Canada's exports in that year also showed an increase, making up 5·1 per cent. of the total Canadian domestic exports as compared with 4·5 per cent. in 1943. However, the 1944 figure was still below that of 1942 when India's share of Canada's total exports was 7·1 per cent.

British India ranked third in Canada's foreign trade during 1944, being exceeded only by the United States and the United Kingdom. Canadian imports from New Zealand were considerably reduced during 1944 and as a result India reached the third position as a source of Canada's

imports. Changing war conditions during the year led to lower Canadian exports to Egypt and increased shipments to India. As a customer for Canadian products and goods, India ranked third in 1944, after the United States and the United Kingdom.

Canada's total imports from British India during 1944 showed an increase of $6,532,000 over the previous high figures recorded in 1942 ($21,346,000). As compared with 1938, a pre-war year, the increase was $19,697,000. The steady war-time increase in Canadian imports from India, which was interrupted in 1943, due to lack of shipping facilities, was resumed in 1944.

Although tea and jute products continued to be the main imports from India, improved shipping facilities from the East during the year resulted in increased quantities of these products being imported. Shipments of other regular items of import from India were also greater and, in addition, many articles of Indian origin were brought to Canada again after an absence of well over a year. Indian peanuts were imported in large quantities during 1944 for the first time since 1942, when the Canadian Government placed a ban on the import of these nuts. Indian raw cotton and kapok were other articles in this same category. Imports of rugs and manganese oxide also greatly increased. On the other hand, Indian vegetable oils showed a further decrease and were practically negligible during 1944.

The main items of import from India during 1944, together with the percentage of the total imports that they accounted for, were as follows: jute and jute products $12,722,737 (46·0 per cent.), tea $9,462,816 (34·2 per cent.), nuts, $2,119,996 (7·5 per cent.), manganese oxide $1,221,047 (4·3 per cent.), furs, hides and leather $636,600 (2·2 per cent.), and carpets and rugs $364,444 (1·2 per cent). Other main items of lesser value and percentage were chrome ore, raw cotton, lac, coir and coir products, kapok, wool and tanning materials.

Canadian exports to British India during 1944 showed an increase of $6,910,000 over the previous record year of 1942 ($167, 884,000) largely in mechanical transport and parts, locomotive, textile products, non-ferrous metals and products, food products, and wood products and paper.

Exports of products in the general grouping "Iron and

its Products" were valued at $125,945,968 in 1944 as compared with $106,931,548 in the previous year. The most important items in this group were motor vehicles and parts. Motor vehicles units shipped during the year increased in number from 41,634 to 55,455. Exports of pigs, ingots, blooms and billets of iron, including ferro-silicon and ferro-manganese alloys, increased in tonnage. The tonnage of rolling mill products also showed a considerable increase in 1944, due to substantial shipment of railway rails. Machinery exports increased moderately. Exports of Canadian built locomotives for use on Indian railways continued in 1944 and totalled 114 in number.

The export of non-ferrous metals and their products showed a further increase in 1944, the leading item in the group being "Copper and its Products". Copper ingots, bars, billets, rods, sheets, tubing and wire made up the copper shipments. Exports of electrical apparatus more than doubled in value during 1944. Storage batteries, radio and wireless apparatus, dynamos, generators and motors were the chief items in this group. Shipments of aluminium and aluminium products registered a substantial increase during the year and were valued at $726,425.

Total Canadian food products exported to India during 1944 were valued at over $4,000,000, over twice as great as in the previous year. For the first time since 1939 Canadian wheat was shipped to India and exports of canned fish were also specially large. Shipments of processed milk products were somewhat smaller and were largely composed of evaporated milk. Exports of oatmeal and rolled oats increased moderately, while those of canned meat were considerably less. In addition, there were sizable shipments during the year of pickles, sauces and catsups, canned vegetables, prepared cereal foods and other miscellaneous vegetable and animal food products.

Canadian wood and paper products were exported to India in increasingly large quantities during 1944. Newsprint paper continued to be the leading item of export and shipments of this product were more than double that of 1943. Wood pulp was exported to India during the year in appreciable quantities and shipments of book paper also recorded large increases.

With the cessation of hostilities and availability of commodities in supplying countries, measures by way of

relaxation of import trade control have already been introduced, wherever feasible, with a view to enabling larger imports of necessary goods into the country and a larger number of persons participating in India's import trade.

As regards the export trade it is pointed out that the most important consideration weighing in the matter of control is the supply position in India of the goods concerned. Where commodities are in short supply and exports have to be controlled, it is considered that the interests of exporters can best be protected by granting quotas to established shippers with reference to a basic period. Whenever it is found that quotas cannot be utilised fully by established shippers, the surplus quota is distributed to other suitable traders in the line so as to encourage the flow of trade.

Further liberalisation of the present export control policy, it is explained, will depend on the improvement in the internal supply position of the various controlled commodities.

On the question of purchases in India being made by foreign countries through normal trade channels, it is understood that necessary steps are being taken to see if normal trade channels cannot be restored in the near future in respect of those countries, *e.g.* Turkey and Persia, whose Government representatives at present arrange for the distribution of quotas in the countries concerned. So far as jute goods are concerned, a beginning in this direction has already been made, and Turkish sugar factories will henceforth obtain their requirements of bags direct from India.

In view of the slightly improved supply position in the U. K. of certain steel items for which import licences are being issued at present by the Controller of Steel Imports, the Government of India have decided to issue licences for these items more freely than in the past. Items for which licences will be issued by the Controller of Steel Imports are: Iron and steel wood screws, roofing bolts and nuts, galvanised roofing screws, rose head nails, light hand tacks, blue cut tacks, shoe tacks, tigles, panel pins, bifurcated and tinmen rivets, stitching wire, telescopic flush pipes, iron and steel valves, steel conduits, wire netting, wire mesh, wire chains, wire linking fencing, chains, forged steel bells for the cement industry, horse and bullock

shoe nails, boot protectors, washers (including spring washers).

The supply of certain items such as panel pins, horse and bullock shoe nails and boot protectors, is very limited at present and import licence cannot be issued simply on the basis of past imports unless the applicant gives definite proof of the availability of the goods for export from the U. K.

The grant of licences for all the steel items mentioned above is limited by the quotas allowed to India from time to time and it may not, therefore, be possible to issue licences in every case for the full quantity asked for or even for a portion of it.

No licence will be issued by the Controller of Steel Imports for any items which are being produced in India and for which the Government of India is maintaining stock for re-distribution to actual users, unless he is satisfied that stocks available are not suitable for any particular demand.

A decision to proceed rapidly with further investigation and progress in regard to the Unified and Multipurpose Damodar Valley Development Project was taken at the Conference between the Central Government and the Governments of Bengal and Bihar, which was held recently. It was agreed that the scheme should provide the maximum measure of flood protection that might be necessary against the most unfavourable combination of natural circumstances.

Further investigation of possible dam sites on the Damodar River will be necessary before starting actual construction, and among the sites which require such investigation are Maithon, Aiyar and Sonalapur. The Conference discussed the technical aspects of the question and decided that the order of priority for investigation should be, Maithon first, Aiyar second and Sonalapur third; and that the Central Technical Power Board should prepare project reports for each of these dam sites—in the case of Sonalapur dealing in particular with possible effects on coal production.

The Central Government would try to secure staff, at the earliest possible opportunity, for the further detailed investigations required for such project reports. Meanwhile,

however, investigations should be carried on by such staff as was immediately available. The Conference agreed that the entire staff engaged on further investigation of dam sites should work under the technical direction of the Central Technical Power Board so that Unified Control of the preliminary operations could be ensured. It was further decided to invite four Engineers from the U. S. A. to advise on the design and construction of the first two dams to be built under the proposed Unified Scheme. These Engineers would constitute a Technical Mission and should arrive, if possible, in India early next year. It was hoped that by that time the required data would be collected and available.

While the ultimate intention is to constitute a Damodar Valley Authority for the administration and carrying out of the Scheme, the conference decided that as an interim measure the Central Government should appoint a high ranking Administrative Officer for co-ordinating all preliminary action and for rapidly pushing through investigations connected with the proposed Project.

It was agreed that investigation should be undertaken simultaneously for the various other problems connected with the scheme. The Irrigation Departments of the Bengal and Bihar Governments in consultation with the Central Irrigation, Waterways and Navigation Commission, should investigate the best methods of utilising the water made available for irrigation.

Other subjects to be investigated include development of power demand including setting up of nursery stations, anti-erosion works, navigational, geological and water supply aspects of the scheme and the lay-out of transmission lines.

A series of reservoirs providing flood control, supply of water for irrigation, and a system of hydro-electric and thermal power stations interconnected by transmission lines—these are the main features of the Damodar Valley Multi-Purpose Project, outlined in a Preliminary Memorandum prepared by the Central Technical Power Board, in pursuance of a resolution adopted at the Conference,

held in January last, between the Central Government and the Governments of Bengal and Bihar A rough estimate of the capital expenditure involved gives a figure of rupees 55 crores, but this is merely to be taken as an indication of the order of expenditure likely to be incurred.

The Memorandum deals with past floods for which the Damodar River has an evil reputation, and discusses the "Design Flood" on which the outline plan is based. The general Plan of Development compromises the building of a system of eight dams and a barrage. Seven of these dams are for storage purposes and all eight of them would contain hydro-electric generating plant. The aggregate controlled Reservoir capacity would be about 4,700,000 acre feet. Detailed studies indicate that the storage volume would be sufficient for all purposes. The amount of reservoir capacity, reserved for flood control purposes would reduce the maximum design flood to a flow of about 250,000 cusecs at Rhondia.

Under the proposed plan of development it would be possible to undertake the perennial irrigation of about 760,000 acres, including the 186,000 acres at present partially irrigated.

The Memorandum further points out that the Project would make possible the development of a considerable amount of electric power. Studies indicate that the combined development should make available about 65,000 continuous kilowatts of primary hydro-electric power and an additional amount of intermittent or seasonal power up to a further 65,000 kilowatts. The Memorandum draws attention to the necessity of combining the hydro-electric plants which would contain about 200,000 KW. of generating capacity, with some 150,000 KW. of thermal generating capacity in large modern units. After allowing for losses the system would be capable of meeting a maximum demand approaching 300,000 KW. making available about 1420 million KW. hrs. annually.

The provision of a regulated flow, says the Memorandum, would make practicable promising schemes of public water supply to communities in its vicinity. Apart from domestic water supply the project should provide an ample supply of water for industrial purposes.

Financially the Project as a whole is regarded as capable of standing on its own feet and providing an economic success without taking account of the large indirect benefits accruing to the Region.

In view of the multi-purpose nature and the vast scope of the Project, it is felt that it should be constructed and operated under a single unified administration. The Memorandum accordingly recommends that the task of continuing the planning, designing, constructing and operating the dams, reservoirs, waterways, power houses and transmission lines should be entrusted to an Authority with powers and duties carefully delineated by the three Governments. It is suggested that a detailed examination of the Tennesse Valley Authority Act may be useful. "The Damodar Valley Authority," says the Memorandum, "could be an example in the multi-purpose development of a watershed for India as the T. V. A. has been for the U. S. A. Its value as a national defence agency would be great".

The Project will vitally affect and reorientate the lives of about 5 million persons living in the Damodar Valley (mostly following agricultural pursuits), and about 2 million persons living in urban areas.

Recommending the Unified plan to the three Governments concerned, the Memorandum says, "The Project would provide an adequate measure of flood control at a cost representing a not unreasonable insurance premium. This premium would offset the incalculable loss in the form of destruction of life and property which has resulted in economic disaster to a community in the past, and which may well occur on a still graver scale in the future if measures are not taken to prevent it.

"The project would make it possible to provide perennial irrigation over an area of three-quarters of a million acres, strategically centred in a part of India where the food production outlook is grave.

"The Project would make available a substantial amount of power at a low cost in a region well suited to become the centre of a great industrial development. The relative proximity of the power system to neighbouring industrial concentrations is conducive to a well co-ordinated system of power development in this part of India.

"The project would make it possible to carry out important measures of social and economic rehabilitation

which if they were taken up individually, would be much more costly and more difficult of attainment.

"The project would, if adequate engineering forces are brought to bear without delay, provide a very substantial volume of productive work for many thousands of people. This would go some way to offset the fall in employment consequent upon the forthcoming reduction in war activity in India."

The Baroda State has worked out a five-year plan of post-war reconstruction. Outlining this in a recent talk from the Delhi station of All-India Radio, Rajyaratna. S. V. Mukerjee, former Post-War Reconstruction Member of Baroda, said that among the new schemes contemplated were a new Arts and Science college in Mehsana district, Medical and Engineering colleges in the capital, 60 new secondary schools, three technical high schools, and a special drive in compulsory education which would enclose within its net hitherto uneducable elements.

The future programme of railway extensions almost entirely limits itself to the needs of the attached areas. One hundred and fifty-seven miles of additional railways are proposed for the next five years. As for roads, the plan is to have 1,246 miles of new roads for the first five-year period. Four kinds of highways are proposed: (a) National highways—76 miles—the construction and upkeep of which will devolve on the Central Government, (b) State highways—97 miles; (c) District roads—515·5 miles; and (d) village roads—557 miles. The communications plan estimates a capital expenditure of Rs. 2.86 crores for roads and about Rs. 2 crores for railways.

Irrigation projects include the two old schemes of the Sabaramati river and the Sankhri river development. The Sabaramati project, the larger of the two, has two stages spread over perhaps two five-year periods and costing Rs. 1.93 crores and will ultimately control 36,000 acres. The Sankhri river project will cost Rs. 1.35 crores and control 28,000 acres.

In respect of agriculture, the plan will intensify and extend the present policy of rural reconstruction and live-stock improvement. Schemes to improve soil and water include the construction of 4,000 new agricultural wells

and the conservation of soil from erosion and natural rainfall through contour bunding, particularly in dry areas. This is expected to cost Rs. 58 lakhs. Twelve new rural reconstruction centres will be established in the next five years, covering 600 villages.

Among schemes of industrial development the most important is the creation of a two-unit ship-building yard at Port Okha, capable of constructing four ships annually up to 8,000 tons each. The scheme will cost Rs. 54 lakhs.

The five-year plan also includes extensive electric supply and telephone schemes, consolidation and strengthening of co-operative societies with multi-purpose objects, fisheries schemes, proposals for resettlement of combatant personnel, and schemes of industrial development with parallel schemes of labour welfare and housing.

An apprenticeship training scheme, planned and organised on national basis and leading to a certificate of craftsmanship on the completion of training, has been recommended to the Central Government by the Technical Training Scheme Advisory Committee. The scheme is intended to ensure a steady flow of trained craftsmen into industry and to meet the industry's present and future need. Before devising the plan the Committee made a rapid survey of the number of technical personnel employed in private and Government engineering workshops. This survey showed that after allowing for the annual output of the existing factory apprenticeship schemes and industrial and trade schools in the Provinces, a large number of skilled workers was still required by industries to maintain their present strength. In addition skilled workers will also be required to meet the expansion of existing industries and of the new industries that may be started in the post-war period.

Recognising that the best way of providing good craftsmen is through comprehensive and systematic apprenticeship, the Committee have advocated that the first part of training would be given in specially designed centres to be run by Government, and the second in workshops engaged on production, thus co-ordinating training and production to the greatest possible degree. The total duration of

training should be $3\frac{1}{2}$ years of which the trainees should spend the first two in a Government training centre and the balance as an apprentice in a factory. While the training centre should provide practical training closely related to industrial practice, attention should also be paid to theoretical subjects.

The Committee recommend that as a starting measure steps should be taken to open one centre each in Bengal, Bombay, Madras, U. P., Punjab, Bihar, Delhi and Central Provinces. In all they will provide a seating capacity of about 4000 and the annual outturn from these seats will be about 2000 craftsmen.

In each Province or Region there should be a Provincial or Regional Technical Committee to deal with the local administration of the scheme, to supervise training, to arrange for trade tests and for providing apprenticeship training to trainees who complete their training satisfactorily at the centre. These committees should consist of representatives of Central and Provincial Governments, private and government industry, the workers, the Institution of Engineers and the Regional Inspector of Technical Training. Generally speaking the scheme should be open to all who may wish to qualify themselves for industrial employment. In view, however, of the fact that employers generally give preference to the sons and relatives of their workers, the Committee recommend that up to a maximum of one-third of the candidates should be from amongst applicants who are the sons and relatives of employees of firms participating in the training scheme.

The age limit for admission to the training centre should be from 14 to 18 years. Boys admitted to the training centre should be required to have studied up to a standard two years below the Matriculation or its equivalent. In the early stages it may be necessary to make relaxations in educational standards. The Committee also emphasize the importance of physical fitness of the trainees.

Syllabuses of training have been drawn by the Committee on the basis of the experience of war-time technical training schemes and in consultation with employers all over the country. The engineering trades have been divided into groups, each group being concentrated around a "foundation trade." The intention is that there should

be a basic training period of six months. It is proposed to impart training in 22 engineering trades. The Advisory Committee have recommended that the scheme should also include textile, leather and printing trades.

An employer who participates in the scheme will have the advantage of obtaining workmen who have been partially trained at the expense of Government. He is therefore required to provide apprenticeship training not only for those candidates who are admitted to a Government training centre from his factory, but also for an equal number of other candidates from the training centre. For the remaining trainees arrangements should be made in other factories with the help of Employers Associations.

Provision has also been made in the scheme for general educational instruction during factory training, adequate hostel arrangements, stipends and factory clothing. The Committee recommend that there should be an apprenticeship agreement between the Central Government, the employer, the apprentice and his guardian.

After the satisfactory completion of apprenticeship training, the trainees will be awarded a National Certificate of Craftsmanship by the National Council for Technical Education, which, the Committee hope, will be set up in pursuance of the recommendations made by the Central Advisory Board of Education. Provision has also been made in the scheme for the training of instructors and the Committee has unanimously recommended the establishment of a special training centre for this purpose.

Thus the salient features of the scheme are: (1) It ensures close co-operation with employers and (2) it provides for the sharing of responsibility for training craftsmen between training centre and the factory. It will serve as an important link between educational and pre-vocational institutions on the one hand, and industry on the other. Since the report of the Central Advisory Board of Education specifies a two years course, after the Senior Basic School stage, for industrial and trade schools, and since these schools and the proposed training centres will come under the control of the National Council of Technical Education, it is obvious that industrial schools and training centres will be providing similar courses on parallel lines and they will both lead to the National Certificate of apprenticeship.

The Committee are of the view that as the scheme attempts to impose a measure of control over apprenticeship, legislation may be necessary. This should, however, be on the basis of the recommendation of the Regional Committees.

During the war a rapid expansion of non-ferrous metal production has taken place especially in the western Hemisphere. The supplies of many metals have indeed become so plentiful that it was possible to slacken the rate of output, particularly in the United States and Canada, in 1944 or, in some instances, even earlier. This evolution is demonstrated in geographical detail for thirteen strategic metals in a special table appearing in the last issue (No. 2 (A) 1945) of the *Monthly Bulletin of Statistics* which has just been published by the League of Nations' Economic and Financial Department at Princeton, N. J.

The peak of production was reached already in 1941 for copper in Canada and Australia, for lead in the United States, and for both antimony and cadmium in Canada; in 1942 for copper in the United States and the Belgian Congo, for lead and zinc in Canada and for lead in Australia; in 1943 for zinc, aluminium, magnesium and quicksilver in the United States, and for nickel and quicksilver in Canada.

Some of the more striking gains made in the production of non-ferrous metals between 1939 and the year of maximum output were: *magnesium*: United States 5450%, United Kingdom +360%: *aluminium*: Canada +500%, United States +464%, United Kingdom +128%; *antimony*: Peru +181%, Canada +170%, Bolivia +79%; *quicksilver*: United States +177%; *tungsten*: Bolivia +107%; *zinc*: United States +86% (secondary zinc +94%); *copper*: United States +59% (secondary copper +117%), Chile +53%; Belgian Congo +43%.

The following table shows for certain non-ferrous metals and for selected United Nation countries output in 1939, in the year of peak production and in 1944, together with the percentage change in production between those years.

Non-Ferrous Metal Production

Country	1939	Peak output and year	1944[1]	Percentage change 1939—Peak	Percentage change Peak—1944[1]
		Metric Tons (000's)			
Copper					
United States	698	1111 (1942)	*975	+59	−12
Canada	229	255 (1941)	*220	+11	−14
Chile	326	500 (1944)	500	+53	...
Belgian Congo	123	*176 (1942)	(*157)	+43	(−11)
Lead					
United States	439	518 (1941)	*400	+18	−23
Canada	173	221 (1942)	*120	+28	−46
Australia	237	259 (1942)	(223)	+9	(−14)
Zinc					
United States	460	855 (1943)	786	+86	−8
Canada	159	196 (1942)	150	+23	−23
Aluminium					
United States	148	835 (1943)	704	+464	−16
Canada	75	450 (1943)	...	+500	...
United Kingdom	25	57 (1943)	...	+128	...
Nickel					
Canada	103	131 (1943)	125	+27	−5
Magnesium					
United States	3	167 (1943)	153	+5450	−8
Canada[2]	2	5 (1944)	5	2	...
United Kingdom	5	23 (1943)	...	+360	...
Quicksilver			Metric Tons		
United States	647	1790 (1943)	1293	+177	−28
Canada[2]	2	767 (1943)	334	2	−56

*Provisional or partly estimated figure.

1 Figures in parentheses refer to 1943 or to percentage change between the peak year and 1943.

2 In Canada producton of magnesium only began in 1941 when 5 metric tons were produced and of quicksilver in 1940 when 70 metric tons were produced.

From such scattered information as is available concerning the non-ferrous metal production outside the orbit of the United Nations, it would appear that output of aluminium rose in Germany from 200,000 metric tons in 1939 to 380,000 metric tons in 1942, in Italy from 34,000 metric tons in 1939 to 48,000 metric tons in 1941, dropping to 45-46 thousand metric tons in 1942 and 1943, and in Japan from 23,000 tons in 1939 to 50,000 tons in 1941. Output of antimony in German-dominated Slovakia is estimated to have increased from 1,000 metric tons in 1939 to 3,400 metric tons in 1942.

Tungsten production in Portugal and Spain increased very rapidly during the war years. Output (in terms of WO_3 content of ores mined) expanded in Portugal from 2,370 metric tons in 1939 to 3,997 metric tons in 1941, and, after a drop in 1942, reached 3,636 metric tons in 1943; in Spain the rise was continuous and steep from 149 metric tons in 1939 to 2,004 metric tons in 1943. Spanish quicksilver output doubled between 1939 and 1942 increasing from 1,238 to 2,492 metric tons.

PRODUCTION OF ELECTRICITY INCREASES

According to another special table in the Bulletin, the recorded world production of electricity rose from 351,000 million kwh in 1935 to about 480,000 million kwh in 1939. The data available do not permit of the calculation of such world totals for the war years, but considerable increases were registered during these years in practically all the countries for which statistics are given.

Under the impetus of power requirements for the war effort, production of electricity increased between 1939 and 1944 by 75% in the United States and by 43% in Canada: and between 1939 and 1943 by 40% in the United Kingdom, by 36% in Australia, by 31% in New Zealand, and by nearly 30% in India.

Output of electricity in Switzerland and Sweden in 1943 and in Denmark in 1944 exceeded the 1939 level (1938 level for Switzerland) by 31%, 21% and 27% respectively ; in these countries the shortage of coal accentuated the demand for electrical energy. But in Ireland (Eire) where an acute coal shortage also existed, output of electricity in 1944 was only slightly greater than in 1939.

The table also shows that between 1939 and 1944 output of electricity increased by 43% in Chile and 11% in Mexico, and between 1939 and 1943 by 77% in Palestine, 23% in the Argentine and 10% in the Union of South Africa. Between 1939 and 1942, electricity production rose by 163% in Bolivia and 90% in Puerto Rico.

CENTRAL BANK CLAIMS ON GERMANY

The standing *Bulletin* table on Gold Reserves and Foreign Assets of Central Banks shows *inter alia* the very considerable reichsmark balances held by the central banks of countries that had fallen under German domination. These represent mainly claims on account of goods and services supplied to Germany. How important has been the contribution of German Treasury bills and clearing balances to monetary expansion in such countries may be seen from the following comparison between their reichsmark balances and notes in circulation.

REICHSMARK BALANCES AND NOTE CIRCULATION

National currency (000,000's)

Country.	Month 1944.	Reichsmark Balance.	Note Circulation.	Reichsmark balance as % of note circulation.
Denmark (Krone)	XII	2,762	1,658	167
Czechoslovakia :				
Bohemia and Moravia (Koruna).	XII	54,969	34,052	161
Slovakia (Koruna)...	XII	4,553	6,489	70
Netherlands (Gulden)	X	*4,404	4,879	90
Bulgaria (Lev) ...	(1)	*15,251	18,922	81
Belgium (Franc) ...	VIII	*68,443	100,319	68
Roumania (Leu) ...	VI	*70,223	211,848	33
Hungary (Pengo) ...	XI	*1,074	10,672	10

***Foreign assets consisting almost wholly of Reichsmark balances.**
(1) XII, 1942.

It will be observed that in Denmark and Czechoslovakia (Bohemia and Moravia) the reichsmark holdings of the Central Bank actually exceeded note circulation.

Finland and Croatia, on the other hand, are shown as having a debit balance in reichsmarks. Finland, however, reduced its net clearing debit balance (consisting almost wholly of Reichsmarks) from 3,487 million markkas at the end of 1943 to 630 million markkas in August 1944, whereas in Croatia a net credit balance (almost wholly in reichsmarks) amounting to 1,741 million kunas at the end of 1943 was converted to net debit balances amounting to 4,084 million kunas in June 1944 and to 1,103 million kunas in the following October.

The following figures give the targets for anti-inflationary investments, and the progress made, in the Provinces, Administered Areas and States, in the financial year 1945-46, and the balance still to be realised to achieve these targets, as at end of June. (Figures in thousands of Rupees).

Province	Target	Total investments, 1-4-45 to 30-6-45.	Balance stil to be realised to achieve the allotted target.
Ajmer-Merwara ...	45,00	11,31	33,69
Assam	2,15,00	22,01	1,92,99
Baluchistan ...	40,00	5,60	34,40
Bengal	28,00,00	5,33,00	22,67,00
Bihar	9,00,00	1,19,30	7,80,70
Bombay	70,00,00	46,12,15	23,87,85
C. P. and Berar ...	14,00,00	68,28	13,31,72
Coorg ...	3,00	46	2,54
Delhi	3,60,00	83,99	2,76,01
Madras	22,00,00	2,58,76	19,41,24
N.-W.F.P.	1,00,00	19,96	80,04

Province		Target	Total investments, 1-4-45-to 30-6-45.	Balance stil to be realised to achieve the allotted target.
Orissa ...	...	1,70,00	10,68	1,59,32
Punjab ...	...	26,50,00	3,32,67	23,17,33
Sind... ...	...	7,25,00	59,61	6,65,39
U. P. ...	...	20,00,00	3,64,08	16,35,92
Administered Areas :—				
Bangalore—				
C. & M. Station	...	25,00	4,37	20,63
Hyderabad ...	...	17,00	2,37	14,63
Central India ...	...	8,00	2,02	5,98
Rajkot Civil Station	...	3,00	3,62	—62*
Mount Abu ...	...	1,00	73	27
Indian States ...	...	39,77,25	3,53,63	36,23,62
Total	...	2,46,39,25	66,68,60	1,77,70,65

The Provinces of Ajmer Merwara and Bombay, and the Administered Areas of Central India and Mount Abu, have exceeded a quarter of their annual targets, during the first quarter of the financial year. Rajkot Civil Station has already exceeded the total annual target allotted to that area.

In all India, investments during the first quarter of the year have exceeded one quarter of the annual target.

On a review of the operations of Capital Issue Control since it was introduced rather over two years ago, the Government of India have decided to grant an exemption in favour of any issue by a company other than a banking

*Target surpassed.

or insurance concern for an amount which, taken with the amount of any other issue made by the same company within the preceding twelve months, makes a total not exceeding Rs. one lakh. Where the issue is one of shares or the like these amounts will be calculated by adding to the nominal value of the shares any additional sum such as premium or entrance fee which has to be paid by the subscriber. The general exemption order has been revised so as to include this exemption and at the same time to cut two existing exemptions which the new one makes otiose and one which has become inoperative by lapse of time.

India's summer lac crop in 1945 was 664,000 maunds as compared to 783,000 maunds in 1944, registering a decrease of 119,000 maunds. There was, however, a small increase in the finally estimated production over the revised estimate owing to favourable climatic condition during May and June. There was a substantial increase in the case of Baisaki production of Bengal. The crop in the Central Provinces and Berar and Central India also thrived satisfactorily and resulted in a small increase in the estimated production.

The Jethwi crop obtained by infecting Kusum host-trees with the last Kusmi-crop, which itself was very poor, was unsatisfactory but better than last year's.

The Baisaki and Jethwi broods have generally been well-preserved during the summer months this year and this augurs well for the coming lac-crops, Katki and Kusmi.

Below are comparative estimates in maunds of Baisaki and Jethwi lac crops :—

Political Divisions	Final Baisaki			Final Jethwi		
	1945	1944	1943	1945	1944	1943
Bengal	33,500	37,000	11,000	...	...	...
Bihar	401,250	527,750	224,000	18,000	5,875	51,250
C. P. and Berar ...	80,000	86,500	52,500	3,500	1,500	3,500
U. P. of Agra & Oudh	4,000	6,000	3,500	...	...	...
Rest of Indian Provinces ...	13,000	13,250	13,000	250	125	250
All Indian States ...	103,500	100,000	68,000	7,000	5,000	12,000
All India ...	635,250	770,500	372,000	28,750	12,500	67,000

There is at present an acute shortage of raw hides suitable for the production of sole and upper leather throughout the world. It is very necessary to take steps to ensure that the limited supply of available raw hides are utilised to the best possible advantage. One very common source of wastage is faulty tanning and processing by small tanners resulting in the production of poor quality of leather, which does not stand the same wear and tear as it would do if the hides were processed and tanned in the correct manner.

So far as the production of sole leather is concerned Government of India, in 1942, introduced control over the processes of tanning of certain tanneries producing sole leather in bulk and brought their processes to proper standards resulting in the production of better quality of durable sole leather. Government have now decided to introduce similar control over certain chrome tanners producing upper leather, especially in the Calcutta area, who process a very large number of raw hides and whose methods of tanning are wasteful and inefficient. It is hoped that with the exercise of the control the quality of leather produced by these tanneries will improve resulting in increased quantities of leather being available for export.

Restrictions on the utilisation of reclaimed rubber, which have been in force for over a year, have been removed with the publication of the Rubber Manufactures Control Order 1945. The order is a re-issue of the Rubber Manufactures Control Order, 1944 which was brought into force on September 1, 1944. It incorporates all amendments to the original order made from time to time and lays down that no person shall treat, use or consume any rubber as defined therein except under the authority of and in accordance with a licence granted or a special or general order issued by the Controller of Rubber, in the Directorate General of Supply, New Delhi. Applications for permission to treat, use or consume rubber are to be made to the Controller of Rubber. The latter is empowered to require any person to give such information in his possession as may be demanded and to arrange for the inspection of books, documents, manufacturing equipments or premises of any person. The Order provides for the fixation of maximum prices at which rubber articles can be sold. Ceiling prices fixed in respect of certain specified articles by a separate notification are already in force.

Book Reviews

CURVE FITTING FOR STUDENTS OF ECONOMICS, by Brij Narain. Published by Messrs. S. Chand & Co, Lahore. 1944. Pp. 197. Price Rs. 10.

The book under review should prove useful to students of Statistics. We do not however think that in a country like India it is likely to prove of any use to the general body of students of economics. Nor do we quite agree with Prof. Brij Narain when he says that economics is a statistical science. The only sense in which economics can be considered to be statistical is the sense in which all other social sciences are statistical. The peculiar significance of the science of economics is not brought out when it is branded as a statistical science. Be that what it may, nobody can deny the importance of this book for a student of economics. The only fear is that in our country there is not likely to be a demand for such a book on the part of the student of general economics. The price of the book too will prevent many from buying it. The book however has a good get up and the paper used is of nice quality.

There are seven chapters in the book. The first four chapters explain the methods of curve fitting. In the appendix to the fourth chapter the practical uses of curve fitting are explained. This is an interesting appendix. The next two chapters deal with the population census and the various curves of population. In this connection we would like to draw the attention of students to the equation of auto-catalytic chemical reaction which is used to construct population and frequency curves. As the author says, "in its application to population the method employed has an advantage over the famous Logistic, inasmuch as it can reveal both a growing and a declining trend. In its application to frequency distribution it possesses the merit of comparative simplicity."

Curve fitting by the method of least squares is explained in the third chapter and in the following chapters the method is used to explain how different types of curves can be fitted to the various economic data. Though the working out of the calculations has been explained very fully it has never been made clear as to why the method of least squares should give us the most accurate fit. The equations of the general type

$$\Sigma(y) = na + b\Sigma(x)$$
$$\Sigma(xy) = a\Sigma(x) + b\Sigma(x)^2$$

are given all right but have not been proved. Why these equations give us the most accurate fit has not been explained. To the author it may appear simple enough but to a student it cannot and he has to be explained this fully. The pages 27 to 32 lay the foundation of the whole book. Unless the matter in these pages is explained with abundant use of logic the student is not likely to understand the "why and the what" of what he is doing.

In the opinion of the reviewer the book is a trifle too closely packed with examples. Tables, curves and mathematical calculations without much written matter by way of explanation and comments always confuse the student.

The book has its merits and Prof. Brij Narain must be congratulated for having made an attempt at making the students feel interested in this kind of study. The students of statistics, at any rate, should find the book very useful and interesting.

We are pained to find Prof. Brij Narain maintaining that the science of economics has no laws. Taking the example of the quantity theory of money, he says, "We have no law, because other things are never equal, and doubling in the quantity of money, under certain conditions, more than double prices, and under other conditions produce no change in prices." For Prof. Brij Narain the law of expansion of gases and the law of gravitation are laws in the correct sense because they are independent of economic system. But can we not say likewise that the law of demand or the quantity theory of money are laws in the correct sense of the word because they are independent of the physical system? Coming from an economist of the eminence of Prof. Brij Narain such statements about the nature of economic laws are very surprising indeed.

As we have said the book is at many places too condensed. For instance, when Prof. Brij Narain applies James Prescott's formula to the growth of human population of England and Wales he leaves certain steps of reasoning and calculation to the imagination of the student. And the student who is likely to make use of this book does not possess that much imagination. On page 124 'a' has been assumed to be 70.66 but the student is not told why. The matter on pages 126 and 127 is much too condensed for an average student.

Prof. Brij Narain has written a book that will be read by few and easily understood by fewer still. But a book on curve fitting was needed and Prof. Brij Narain has supplied it. We hope he will write now a simpler book which the students may read first, understand fully and get interested in, so that they may follow it up with a profitable reading of his "Curve Fitting for Students of Economics". Incidentally it may be remarked that a more appropriate title would have been "Curve Fitting for Students of Statistics."

J. K. MEHTA

LOCAL SELF-GOVERNMENT OF INDIA, by Dr. M. P. Sharma, M.A., D.Litt. Published by Hind Kitabs, Bombay, 1944. Pp. 111. Price Rs. 2-8.

Local self-governing institutions are rightly regarded as the training-ground for good citizenship. Indeed they are much more than that: they are also the primary units of social welfare activities. Yet their progress in India, and even their study, has been sadly neglected. The

question of their reform recently occupied the attention of various provincial ministries, but before any step could be taken to give concrete shape to any scheme of reform, the Congress ministries which had taken special interest in them resigned on the major issue of war and war-aims.

In this book Dr. Sharma has traced the existing position of the local self-governing institutions, showed their limitations and shortcomings and suggested the lines of improvement. In so doing, he has taken full account of the experience gained in the European countries, America as well as the Soviet Union. Nor has he ignored the past experience of India herself, or the various proposals made for reform. One by one he takes up the case of municipalities, district boards, village Panchayats, and discusses the scope of their activities as also question of finance and efficiency, and makes many valuable suggestions. He also takes up other constitutional issues of great importance such as the question of suffrage, method of election and voting, the office of chairman and his functions, the local services and the question of the security of their tenure and their political neutrality, the provincial control over the local institutions and agencies for it, and lastly local finance. In each case he describes the existing situation thoroughly, considers various recommendations and proposals for reform and gives his own suggestions. While giving his own suggestions the author also takes into account the other possible alternatives and thus provides a wealth of information on the subject.

The book is divided into twelve chapters. The author starts with two assumptions : firstly, that India would soon be independent to fashion her own destiny; and secondly, that there is a broad similarity in the problem of local self-governing institutions in different provinces of India. In the next four chapters, he discusses the functions of various local bodies; what they are at present and what they ought to be. In the sixth Chapter he considers the general question of local areas, and the rest of the book is devoted to the consideration of the constitutional issues involved in the question of reform. The seventh chapter deals with the method of election, suffrage and electorate and the next with the problem of local executive. In the subsequent three chapters, he discusses the local service, the extent and agency of provincial control and the all-important question of local finance. And the book closes with his general observations.

The treatment of the subject is very comprehensive and the general reader will get all what he needs to know on the subject in this book. Really Dr. Sharma has done a great service to readers in general and students in particular in providing them within a short compass much reliable and illuminating information on local institutions and their problems. His analysis throughout is clear and critical and his suggestions thought-provoking. The book is a valuable and welcome contribution to the literature on local self-governing institutions in India.

—N. N. AGARWAL

OUR AGRICULTURAL PLAN, by D. S. Dubey. Published by Messrs. Kitab Mahal, Allahabad, 1945. Pp. 80. Price Re. 1 8 as.

Mr Dubey's little book deserves a welcome as it belongs to a stream of current Indian thought whose rapid growth is essential to the future progress of the country. He is fully seized of our central agricultural problem, namely, uneconomic holdings. His solution is to constitute in every village a co-operative society which will undertake collective farming and village development on a *compulsory* basis. The village society will issue a certificate to each landholder equivalent to the market value of his land as determined by Government officials. The share certificate will be heritable but will not be alienable without the permission of the society. In *zamindari* areas, the society would guarantee to those who hold superior rights the stipulated amount of rent which they are at present getting from their tenants. The society will guarantee to every adult member a wage depending upon the amount and quality of work done, but there would be a minimum subsistence wage fixed in kind. The landless who stay in the village can also become members by buying a ten-rupee share. A *panchayat* consisting of seven elected members would organise work by dividing the workers into gangs and allotting work separately to each gang, much on the lines laid down for the *artels* in Soviet Russia. It would also pay an unemployment bonus equal to the minimum wage to those to whom it is unable to provide work.

The scheme is sound in taking the village as the unit for co-operative effort, but the method of compulsion which the author accepts somewhat lightly reduces its practical value. In the present ferment of thought it is necessary to insist that those of us who think and act for society have an obligation to advocate no more than what *we* are prepared to execute. In proposing the Soviet brigade system the author seems to have overlooked the close connection which exists between technique and the system along which work is allotted, organised and evaluated. It follows, therefore, that he is probably in error in attempting to adapt the *artel* rules more literally even than the Russians. While he prescribes bonds in lieu of land, he does not explain how the rights of ownership will be rewarded from harvest to harvest. In his system there seems to be no internal, cohesive principle of change through which the village will eventually become an equal and efficient society.

These are criticisms of detail and until ideas are put to the test of experience there is room for divergent suggestions. A regrettable feature in Mr. Dubey's proposals lies, I believe, in his painfully detailed but nonetheless unhelpful budget estimates in Chapters VII and VIII. Such statistical estimates are an unfortunate legacy of the first part of the Bombay Plan, which may well grow into a minor national evil. In five years the author hopes to introduce his scheme in 100,000 villages at a total capital cost of Rs. 1,340 crores, the amount of money required for fifteen years being Rs. 6,700 crores. This money is required merely for getting the system into working order. Expenditure on development, such as irrigation works, capital equipment, rural education, etc., will be presumably in addition to this. We are assured that in five years there will be a 200% increase in the income of every village. As one who feels deep sympathy with the author's approach, the reviewer finds it difficult to share a number of assumptions on which Mr Dubey's proposals

are built. One feels that, like other books with similar objectives, this book should help in the shaping of constructive opinion, but none of them can claim to be '*our agricultural plan.*'

T. S.

OUR FOOD : LUCKNOW CITY, by Prof. S. K. Rudra. Published by Lucknow Social Service League, Lucknow. Pp. 45. Price not given.

This paper on "Our Food", as Prof. Rudra says in the preface, is one of a series of lectures entitled "Our City", arranged by the Lucknow Social Service League. We congratulate the League and the learned author on publishing such a valuable study. It is an example to others to carry on such investigations of other towns in the province.

In the first few pages the learned author has very ably and lucidly given a general discussion of the food problem. We agree with him that till recently neither the public nor the State in India gave any thought to this all-important matter of the people's food. The Crop Planning Conference convened by the Government of India in 1934 was inclined to think that acreage under wheat and rice should be reduced. Probably the conference was influenced by the price factor, as wheat was selling at about Rs. 2-4 per maund in the Hapur market, rather than by the nutritional needs of the country. Increasing attention was paid to the growing of commercial crops. Neither the acreage under food-crops nor the yield has kept pace with the increase in population since the beginning of this century. About 30% or roughly 100 million of the population of the country was on mal-nutrition, but it seemed to be nobody's concern to look at the problem with sympathy and imagination. The problem was forced on us in all its nakedness only in 1943 after the deaths of millions of people and a country-wide suffering.

Prof. Rudra has touched on so many vital problems in a compass of about 25 pages and the satistical tables, charts, graphs and appendices, so profusely given, have very considerably enhanced the value of this critical and comprehensive study.

While we agree with most of the reasoning and conclusions of the author, we fail to think "our Government has done its share". By a process of trial and error the control machinery has certainly improved, but it would have worked much better if the problem had been handled more efficiently and public co-operation had been invited in the right spirit. Again we must not forget that the Provincial Revenue has increased from Rs. 1,280 lakhs in 1938-39 to Rs. 2,752 lakhs in 1945-46. and the U. P. Government has built up a Fund of Rs. 1,430 lakhs upto 1945-46. We should not grudge if a few crores of this Fund are spent on subsidizing the food of the poor and the lower middle classes during these abnormal times as according to Prof. Rudra's own estimate the value of a pre-war rupee fell to 4 or 5 annas in 1943-44 (page 16) To say nothing of protective foods like milk, fruits, eggs and vegetables, the poor do not get even enough cereals to fill their bellies. This class is not able to take its full ration.

We highly appreciate and value the services of a certain section of the officials, but we regret we cannot shut our eyes to the corruption and bribery rampant in the official hierarchy. According to Pandit Jawahar Lal Nehru 'a new rich class' has been created as a result of this corruption. Being a true Christian, Prof. Rudra has forgotten and forgiven the sins of this class.

We once again commend the paper as a very able and useful contribution and hope it will be followed by many others of its kind.

K. L. GOVIL

PROCEEDINGS OF THE FOURTH CONFERENCE OF INDIAN SOCIETY OF AGRICULTURAL ECONOMICS. Published by the Indian Society of Agricultural Economics, Bombay, 1944. Pp. 302. Price Rs. 5.

In these days when we are hearing about "industrialisation" so much and so loud, this volume makes a welcome change. It contains the Opening Address by Sir Chintamani D. Deshmukh, Governor of the Reserve Bank of India, the Welcome Address by Seth Walchand Hirachand, the Presidential Address by Sir Manilal B. Nanavathi, eight papers on agricultural tenancy, seven on land mortgage banks in India, three on marketing legislation in India as also a discussion on the food situation. The latter portions of the volume contain the annual reports by the Secretary and the Auditor and a brief resume of the activities of the Society.

Sir Chintamani, like almost every other Indian, has his heart close to agriculture: says he: "I am at heart an agriculturist." He refers in his Opening Address to the "mutually helpful development of agriculture and industry", the "synthesis and rationalisation of agriculture and industry" and asks the agricultural economists to view the question from that angle. The only observation that could be made on this issue as put by the Reserve Bank Governor is that "industry" has no homogeneity, and high or low capital intensity makes all the difference between disease and health: the right *beginning* would be agriculture with ancillary, allied and subsidiary industries. This should pave the way for utility services, and how much of "big" industry this country should take up would depend on the *then* circumstances. But, as matters are, agriculture is receiving little in excess of lip service.

In his Welcome Address, Seth Walchand Hirachand has very legitimately referred to his practical work in agriculture, and almost throws a challenge: "I would like the agricultural economists assembled here to offer their comments if this co-ordination of agriculture and industry *as adopted here* is on the right lines and why this system should not be extended to larger areas in this part of the country as also in other parts, as particularly it does not cost anything to the Government of the country but on the contrary is a source of direct income to the State, and indirectly is useful to the State and to the country in various other ways such as employment both to skilled and unskilled labour." Seth Walchand Hirachand has three farms covering about 25,000 acres and dairy cattle exceeding 3,000 in

number. He has his sugar factory at Ravalgaon and a number of industries associated with sugar. He has his own railway and other modern means of transport. Naturally the question arises in one's mind : if a private individual could do so much, why is it that no Government in India has yet attempted to start and run such big farms on commercial lines—much more to offer "visual education" to the farmers in general than to take away the bread of the farmer ? There could be only one answer : we have been too orthodox all these days.

In his Presidential Address, Sir Manilal has dealt with his stalwart efforts to raise the Society to an adequate status both in personnel and in finance. And he has succeeded wonderfully well. Like a true farmer, he has himself *led*—with his own services and with a heavy subscription to the Fund. By now everybody knows "The Indian Rural Problem" published by the Society, and two series—Rural Problems of India, and Land Problems of India are in the process of publication. A special suggestion by him in his Address is the launching of at least 15,000 Rural Reconstruction Centres as at Martandum in South India (developed by Dr. Hatch) with a number of experimental stations at the back of them. Sir Manilal has of late been on the Woodhead Commission, and surely great things should be expected from his steady, serious and powerful personality.

Most of the papers are well worth reading : particular mention might be made of the papers on land mortgage banking by Khan Mohammad Bashir Ahmad Khan and by Sher Jung Khan. The previous year's proceedings were reviewed by this same reviewer who expects to review the proceedings of the Fifth Conference at Naini very shortly. Sir Manilal B. Nanavathi, the President, and Prof. J. J. Anjaria, the Hony. Secretary, deserve warm appreciation and sturdy encouragement on all hands in their *really* nation-building work.

S. KESAVA IYENGAR

COOPERATIVE DISTRIBUTION IN BOMBAY, by M. C. Nagaresh. Published by Bombay Provincial Cooperative Institute, Bombay. 1944. Pp. 82. Price Rs. 2 8 as.

This brochure details the role of co-operative societies in the distribution of foodstuffs and other necessities of life in the Province of Bombay. During the present war the marketing activities of the Co operative Department have increased all over the country. The author has given a description of these activities and has made some useful suggestions in Chap. IV for future development and internal management of the cooperative societies. But at places there is a repetition of ideas. Again one may not quite agree with certain dicta he has pronounced, *e.g.* "The mentality of the public is generally to buy in the cheapest market without caring much for quality". We are at present living in abnormal times when prices in general have shot up very high. Poor and even middle-class people naturally like to buy in the cheapest market to balance their budgets. But with the return of

normal times and the fall in prices, quality will play a very important part. And it has yet to be seen how the Co-operative movement fares in the post-war period when competitive forces operate. It is quite easy to distribute controlled articles and make profits, but to run Consumers' stores in normal times at profits is a task that needs ingenuity, skill, managing capacity and loyalty of the members and many other qualities which are so woefully lacking in the members as well as the officers of the Deptt. During the First World War as well, the Consumers co-operation got a fillip, but with the return of normal conditions many of the stores were closed. The whole movement is a superimposition rather than a spontaneous growth suited to the soil of the country. Let us wish all success to the movement, as we believe that a large number of our rural problems can be solved only with the help of the Co-operative movement. Only it should be properly understood and organized.

K. L. G.

HEAVY INDUSTRIES IN BRITISH INDIA. Published by All-India Manufacturers' Organization, Bombay. Pp. 30. Price not given.

It is a very small pamphlet of about 30 pages with hardly 20 pages matter in small size. A list of existing and proposed heavy industries is given by the A. I. M. O. province-wise for the guidance of the business community. But we regret to remark that the attempt is too poor to justify its existence, and is not quite worthy of an institution like the All-India Manufacturers' Organization.

K. L. G.

INDIA AND INTERNATIONAL ECONOMIC POLICIES. Published by the All-India Manufacturers' Organization, Bombay. 1944. Pp. 97. Price Rs. 2 8 as.

As the title page of the brochure shows it is a statement by the A. I. M. O. on the Agenda of the International Business Conference held at Rye, N. Y. (U. S. A.) in November, 1944. The Organization has outlined its policy on the vital questions of Private Enterprise, Commercial Policy of Nations, International Currency Relations, International Investments, Industrialisation of New Areas, Shipping Policy, Aviation Policy, World Supplies of Materials and Cartels.

The Organization assumes a national government without which economic development of the country is not possible. But their views on the maintenance of private enterprise are very jejune and anachronistic. In their nervousness to retain the *status quo* they have paid all sorts of tribute to capitalism and private enterprise. But they must see signs of the time and witness tendencies towards socialism in the very citadels of capitalism.

On page 13 they say, "Private capital has shown its willingness to sacrifice its interest for the common good, which in war time, means the

whole-hearted war effort." It is a very provoking statement. We know it to our cost what havoc this private enterprise has caused to the poor consumer at whose expense it has flourished. Behind protective walls this private enterprise has developed in this country. They were morally bound to exercise restraint in their dealings. But what do we find all round? Black marketing and corruption! It is through controls that some relief is given to the poor consumer. Their views on Social Security do not conform to facts. Neither in Great Britain nor in India,—in fact much less in India, have the capitalists readily agreed to Social Security measures as the authors of this statement profess. So far we have only Workmen's Compensation Act and Maternity Benefit schemes. We are not in favour of the elimination of private enterprise, root and branch. But it has restricted and decreasing field of operation, and the authors must know it.

The Organization has pleaded for international cooperation in the disposal of raw materials, in demobilisation of soldiers in the economic development of the depressed areas, in the rehabilitation of the devastated areas, in stabilising currency in the post-war period etc. etc. At the end of several chapters, they have given summary of their chief recommendations. A chapter is devoted to the liquidation of sterling balances. The measures suggested are too well-known to need mention.

K. L. G.

FOOD POLICY FOR INDIA, by S. G. Tiwari, M.A. Published by Nand Kishore and Bros., Benares. Price Re. 1.

A good deal of literature is being published these days, but mostly in the form of pamphlets, on the various aspects of our Food Problem. The brochure under review is one of them. The author has pleaded for a balanced diet and has shown, by facts and figures our demand of food of various kinds and the existing supplies. Quoting Dr. Burns he has indicated the lines of improvement in the yield of various foods and has argued that if intensive and extensive cultivation is carried on, and the other evils are eradicated the problem is capable of solution. We agree with the views of the author except that in dealing with pre-requisites he has not shown enough sense of proportion in his discussions.

K. L. G.

THE UNITED NATIONS OF THE WORLD, by Haridas T. Muzumdar. Published by Universal Publishing Co., New York. 1944. Pp. 288. Price $ 2.50.

This is a book written by a 'Hindese' (so the author prefers to call himself) who loves America and has adopted her as his mother-country. Besides, Dr. Muzumdar is a disciple of Mahatma Gandhi and is as such eminently fitted to interpret the Oriental mind to his Occidental readers for whom this book is primarily intended.

The learned author maintains that old world is dying if not already ... d and that mankind is standing on the threshold of a New Order.

The impersonal logic of science and technology has made the world united and one at least physically and materially. What is now necessary is to provide such spiritual links as may hold it together and turn it into a real world society.

A similar opportunity presented itself after the last Great War (1914-19) and at one time it seemed that the Wilsonian idealism may lead to a happy augury of a new era. But the spirit of hatred and vengeance got better of idealism and reason and the "Versailles turned out to be a monument of hate" instead of being a charter of peace and liberty. It retained the inequalities of old order, including the empire system and became a classic example of "insincerity and hypocricy", of malice and lack of charity. The subsequent events, contends the author, ought to be a warning lesson that violence cannot cure the ills of humanity and that we must extinguish our resentment if we expect harmony and union.

The author also analyses the Atlantic Charter and the Declaration of United Nations and shows that imperialism, which is only another form of Fascism and totalitarianism, is the greatest obstacle to the world peace. If the world is to remain at peace, the superiority complexes—racial or otherwise—will have to be given up. He strongly criticises Streit's *union now* as "a rationalised attempt to justify dominance of the world by fifteen white-skinned countries practising democracy within their own borders."

He regards continentalism as the logical extension of nationalism and suggests five customs-free regions—Pan-American, Russian, Asian, African, and European. Side by side. he proposes a break-up of all existing empires, the acceptance of the right of self-determination for all nations, equal access to raw materials, the creation of machinery for peaceful change as also for the peaceful settlement of international disputes, and the abandonment of the use of force for defensive and offensive purposes. He contends that it is not punishment or brute force, but soul force and purification that alone can heal the wounds of war and create conditions favourable to the development of world society. Obviously, he has full faith that physical force is not indispensable ; but it has yet to be demonstrated that we can do without force to keep the recalcitrants in check.

The outline that Dr. Muzumdar pens is however not what he hopes to see realised but what he is convinced it is possible to achieve, and this throws a veil of unreality about the discussion. His enthusiasm about America and her possible role in the cause of world peace makes him take a partial view of the things American. His belief that Americans are against imperialism makes him ignore such unpalpable facts as dollar diplomacy, economic domination and the negro problem. Other ruling States also do not seem to be inclined to release their hold on the subject peoples. Far from it, the Middle East is already becoming a centre of attraction and a possible bone of contention in future for the Great Powers.

The fact remains that the idealistic atmosphere of last war is entirely lacking this time. The Yalta Conference has only confirmed the impression that the Allies have committed themselves to a still harsher peace than the last one and maybe, to the dismemberment of Germany.

There are already indications to convince that no New Order worth the name is going to emerge out of this war. The much-talked of Dumbarton Oaks proposals are exclusively concerned with the maintenance of the *status quo* and there is no attempt to rectify the inequalities and injustices that flourish in the political world of to-day. An order is envisaged in which a few Great Powers will virtually dominate the world.

The policy of regionalism which the author advocates is at best only of dubious value. The new economic and cultural unit, as he himself emphasises elsewhere, is not the continent but the world. Continentalism may only create fresh causes of more deadly wars and thus aggravate the situation all the more.

Dr. Muzumdar however has rightly emphasised that the *New World Order*, if and when it comes, has to be based on spiritual force, justice and co-operation, and he deserves to be congratulated for sounding a timely warning—which statesmen are apt to forget—that the palace of peace cannot be reared on the structure of hatred and vengeance.

We commend this book to all those who are interested in the problem of world peace and world society,

N. N. AGARWAL

OFFICIAL PUBLICATIONS

GUIDE TO CURRENT OFFICIAL STATISTICS, Volume II, by S. Subramanian. Published by the Manager of Publications, Civil Lines, Delhi. (Symbol E. C. A. 5. II/600) 1945. Pp. 114. Price Rs. 1-10-0.

The first volume of this important and valuable *Guide* was published some time back and contained information about official statistics regarding production and prices. The second volume has now been published and includes the following sections: Trade, Transport and Communications, Joint Stock Companies, Insurance, Co-operative Societies, Banking, and Currency and Coinage, Exchange and Bullion. Public Finance and Social Welfare Statistics, which were intended to be included in this volume, have been postponed to another volume Vol. III, to be published later.

The author has undergone a very arduous and painstaking task and he has accomplished it with remarkable success. He has given in brief information regarding all recurrent publications of statistical interest issued by the Departments of the Central Government and Reserve Bank of India, other Government publications, and publications of the Provincial Governments. He has thus made it a complete and valuable work of reference which will surely lead to a better utilisation of the official statistics in this country.

CROP ESTIMATION IN THE UNITED PROVINCES by J. K. Pande. Under-Secretary, U. P. Department of Economics and Statistics. Published by the Superintendent, Printing and Stationery, United Provinces, Allahabad. Pp. 119. Price 12 as.

In this extremely lucid, clear and ably written book, Mr. Pande thrashes out the vital problem of crop estimation which has been troubling the statisticians in particular and economists in general. The available statistics in this regard are not at all trustworthy: they were said to be "quite unreliable in most cases" by Dr. Bowley and Mr. Robertson. Mr. Pande says that their unreliability is often exaggerated because such statistics by their very nature must be inaccurate to a certain extent; but he admits that in our country they are very much inaccurate. He, therefore, makes a historical study of the technique of crop estimates employed in U. P., examines the present methods and makes his own suggestions for improvement. The latter are well thought out and require careful consideration. A good deal of research and constant and painstaking study of the records in the Government archives lie behind this valuable and concise study.

SECOND REPORT ON RECONSTRUCTION PLANNING OF THE RECONSTRUCTION COMMITTEE OF COUNCIL. (Symbol: WRC—2). Published by the Manager of Publications, Delhi. 1945. Pp. 57. Price 8 As. or 9d.

This Second Report of the Reconstruction Committee of Council discusses "General Principles" in Part I and gives a summary of development policies in respect of certain main subjects in Part II. The report is compact and concise and gives valuable information on the various aspects of the planning policy of the Government.

A perusal of the *Report* will impress the reader with certain striking points. Firstly, it presumes that the constitutional position will continue to remain as it is, which is extremely realistic and is in sharp contrast to the non-official schemes which start with the wishful assumption that the situation in this regard has materially changed. The *Report* seeks to show how will planning be attempted within the framework of the existing constitution. It goes without saying that planning on any ambitious scale and in the true sense of the term is impossible of achievement without a change in our political landscape; but in the absence of the latter, we must make the best of a bad job and this *Report* is the *only* attempt in this direction. Secondly, it takes a wide and broad view of things and takes into account almost every sector of our economy, which again has not been done by non-official plans thus far published in this country. Thirdly, it seeks to solve not merely long-range problems in isolation from transition issues, which is unfortunately the case with non-official blue-prints, but is an attempt to solve all these in an integrated and co-ordinated manner.

Details apart, we regard these as very strong points of the development policy being framed by the Dalal Department. But its weakness lies in its extreme slowness: the time of action is slipping and the policies we fear will be finalized only after the time of their introduction is past! Moreover, there is a wide gulf in the proclamation of the Government intentions and aims, and their actual translation into practice: this gulf has so long remained without a bridge that it seems to be inevitable. Plenty of paper promises and no action—this is the record of the Government in this country. From academic angle, the Second Report is valuable; from practical view point, it is not worth the paper on which it is printed.

REPORT OF THE INDUSTRIAL RESEARCH PLANNING COMMITTEE—Published by the Council of Scientific and Industrial Research, 1945. Pp. 146. Price Rs. 3.

The Industrial Research Planning Committee was appointed by the Government of India early in 1944 according to a resolution passed by the Governing Body of the Council of Scientific and Industrial Research to make a survey of the existing facilities for the scientific and industrial research, to plan a scheme of co-ordinated expansion of research activity, to report on the steps that should be taken towards the promotion and co-ordination of such research activities and to report on such other steps as may be taken towards industrial and scientific research in post-war

India. The Committee reported in February, 1945, and its report has now been published.

The Committee says that the present research activitv in India does not represent even the bare minimum whether judged by the actual requirements of the country in the present state of her industrial development, or international standards. The capacity of the Indian industry to withstand internation competitional will depend materially on its vision and readiness to implement the latest results of research in a continual effort for improving its productive efficiency. The Committee deplores the disregard of research by Indian industry in general, the absence of an effective link between the research organizations and industrial establishments, and the poverty of the Provincial purse disabling it to finance any large-scale industrial research. It recommends the setting up of a National Research Council, authorised to initiate immediately a five-year programme of development of scientific and industrial research. The proposed plan envisages the building and equipping of a national chemical and a national physical laboratory, certain specialised research institutes, and all-round strengthening of the existing research organisations and the training of a sufficient research personnel by the award of scholarships. It recommends the setting up of a network of research laboratories particularly to deal with local problems in all the Provinces and major States. The cost of the scheme is estimated to be a block grant of Rs. 6 crores by the Central Government for the establishment of research organisations in the first five-year period and thereafter an annual grant of Rs. 1 crore for recurring expenditure. A statutory cess of one anna per Rs. 100 worth of industrial output is proposed to be levied after five years, which will yield Rs. 1 crore per annum.

The Committee has handled the problem in a very realistic and practical manner and the plan proposed by it deserves serious considerations. We are satisfied that if this plan is put into practice, it will materially contribute to the industrial advancement of this country. This is one of the most important reports that have recently appeared for post-war action ; but let us hope it will not, like them, be thrown to the winds by the Government of India.

POST-WAR DEVELOPMENT SCHEMES. Published by the Government of Sind and printed at the Government Press, Karachi, 1945. Pp. 41+423. Price not mentioned.

This big volume contains the Sind Government's first draft post-war Plan. It embodies the individual schemes prepared by separate departments of the Sind Government ; and as many of them are not yet complete and all of those which have been completed not approved by the Government, all that this publication claims to do is to suggest the lines of post-war economic development. The volume is divided into two parts. Part I occupies only 41 pages and gives at a glance the various schemes that the Sind Government have in mind, and key-tables regarding the cost of these schemes. Part II deals with the various schemes in thorough details in so far as they have been finalised. The volume contains in all

122 schemes and it is estimated that during the first five years of planning a sum of Rs. 50 crores will be required, *i.e.*, Rs. 10 crores per year on an average. Of this Rs. 8½ crores have already accumulated in Post-war Development Fund and otherwise; and Rs. 4 crores will emerge from the surpluses with the Sind Government in the next five years. Grant from the Government of India is expected to be of the order of Rs. 4 crores and that from the Punjab Government still under dispute Rs. 2½ crores will furthermore come from new taxation during the quinquennium. In all about Rs. 20 crores may be available in this manner. The rest will have to be raised in the shape of loans. The Report quite correctly observes that "the availability of funds will be the main factor in deciding how many schemes should be selected for inclusion in the Plan." It further mentions that "The barrages can probably service their own debt, and for this reason it may, perhaps, be considered desirable to take them out of the general Plan altogether. If the Road Plan also receives special consideration about its finance, then we will have an estimated fund of about 20 crores to spend on a Plan costing us 25 crores."

We, on our part, do not believe in provincial and separate planning otherwise than as integral parts of a single and co-ordinated national plan so that provincial jealousies and friction may be avoided and the plan may work with maximum smoothness and total strength. But in the absence of this ideal, we are all for provincial planning. We, therefore, congratulate the Sind Government for their carefulness and alertness and for this comprehensive Report which contains many valuable, well thought-out and detailed schemes. We also appreciate the financial aspects of their programme, and trust that this will be a source of encouragement to other Provincial and State governments.

REPORT ON CURRENCY AND FINANCE FOR THE YEAR 1944-45. Published by the Reserve Bank of India, Bombay, 1945. Pp. 148. Price Rs. 3-8.

Like the foregoing issues this *Report* is divided into two parts. Part I contains the Report itself and occupies 98 pages. The remaining 50 pages are devoted to forty-one valuable statistical Statements concerning index numbers of wholesale prices, balance of trade, clearing house figure, circulation and absorption of notes and so forth, and constituting Part II. It is a very useful publication and has been preferred with painstaking care and accuracy. The information furnished on prices and trade, bullion, foreign exchange and exchange control, public finance, capital markets and currency is valuable and well supported with relevant statistics.

MONEY AND BANKING, 1942/44. Published by the League of Nations, Geneva, 1945. Pages 224. Price 12*s.* 6*d.*

The last issue of this famous compendium of the monetary and banking statistics of the world covered the period 1936-1941; and the present edition, which came out barely a few months back, covers the period 1937 to September 1944. The book is divided into two parts,

Part I contains international summaries of essential data on currency, banking and interest rates; and consists of nine tables relating to currency composition and movements, principal assets of Central Banks, recorded central gold reserves, value of world gold production. principal assets and liabilities, of commercial banks, cash ratios of commercial banks, indices of bank clearings, money rates and bond yields, and value of currencies in U. S. cents. Part II gives the balance-sheet position and profit-and-loss accounts of the Central Banks and commercial banks of 48 different countries of the world.

The publication gives a mass of valuable information that is not readily available elsewhere. It includes relevant information regarding new Central Banks established in recent years together with that relating to a number of other Central Banks and Currency Boards which were previously omitted or only partially covered, *e.g.*, those of Central America, Iceland and the Middle East. Commercial banking statistics for these areas have also been given for the first time. Official commercial banking statistics for Germany, Italy, Norway and prior to 1943 for France not being available, the deficiency has been made up by giving combined statistics for a representative number of commercial banks of these countries.

The picture that emerges out of these statistics is at once clear, attractive and revealing. The impact of the war is fully reflected in the composition of the assets backing the note issue and deposit creation. Large proportions of Government's debts have been absorbed by the Central Banks and in the United Kingdom, Germany and Finland, almost the whole amount of Central Bank assets are composed of them. The percentage of Government securities to total Central Bank assets in other countries are as follows: Canada, 96; France, 81: Australia, 73; Japan, 57; New Zealand, 56; and U. S. A., 46. The gold backing of currency has gone down. In Turkey 20% of the Central Bank assets consist of gold; in Iran 25%; in Argentine and Sweden 26%; in the Union of South Africa 45%; in Venezuela 74%: and in Switzerland 93%. In addition to these assets, the Central Banks have accumulated substantial amounts of foreign exchange. In India in particular, as also in Czechoslovakia, 90% of the total assets consist of foreign exchange holdings, followed Netherlands with 77%, Belgium with 60%, Argentine with 52%, Egypt with 36%, and Australia with 29%. In the case of commercial banks in general, assets underlying the expansion of deposits also consist largely of Government securities.

This publication is indispensable for getting a statistical and authoritative account of currency and banking developments in the world during recent years. The information furnished is most valuable, informative and revealing. For an equally illuminating and comprehensive information on the subject, there is no parallel book. It is an invaluable work of reference, which has already made a place for itself.

ECONOMIC STABILITY IN THE POST-WAR WORLD. Published by the League of Nations, Geneva, 1945. Pp. 319. Price 12s. 6d. or $ 2.50.

This is the second part of the Report of the Delegation on Economic Depressions set up by the League of Nations. The first part of this Report,

which was reviewed in this *Journal* sometime back, dealt with the question of *The Transition from War to Peace Economy.* In this second part the Delegation is concerned with the longer-term problem of securing economic stability and the fullest use of productive resources once these resources have been readapted to peace-time requirements. It is divided into two sections. The first gives a general description of the nature and mechanism of depressions; the second, which ends with a chapter of conclusions, is concerned with policies for securing a high and stable level of employment.

Throughout the Report the Delegation insists on the international nature of depressions and the need for international action to overcome them. Depressions "are international phenomena or national phenomena spreading from one country to another", they remark, "and we have had to consider the influences of policies adopted in one country upon economic activity in another. We should have failed wholly in our purpose had we put forward proposals which might reduce unemployment in one area only at the cost of increasing unemployment elsewhere".

While attempting a fundamental analysis of the nature of depressions, they observe that in any industrial country the level of employment depends on the amount of expenditure. If insufficient is spent to buy the whole output that can be produced, some people will be unemployed. In any economy where people save part of their incomes, the maintenance of demand and consequently of employment depends on an equivalent amount of expenditure being directed to investment. In advanced industrial countries where the saving-investment process is very important, the maintenance of demand is likely to prove especially difficult. Depressions arise in those countries mainly owing to the fact that changes in investment plans do not always synchronize with decisions to save When savings outrun investment they go to waste and unemployment is caused. If demand falls off in investment industries, unemployment will be caused and can only be overcome if that demand is made good or some other demand takes its place.

The report classifies the aggregate demand as under: (*i*) private consumption; (*ii*) private investment; (*iii*) public expenditure on current goods and services; (*iv*) public investment expenditure; and (*v*) net foreign investment. It goes on to say that the object of anti-depression policy must be to maintain aggregate demand. Any one of these constituents of aggregate demand can theoretically make good a falling off in any other. But in practice, as productive resources are not completely mobile—labour, for instance cannot move immediately from one occupation or skill to another—it may prove impossible to effect such compensation rapidly. This fact constitutes one of the main difficulties in framing policies to offset depressions.

The different types of depression and the effect of depressions on different types of countries are distinguished; consequently, special chapters are devoted to cyclical depressions, the most universal and serious form, to chronic depression, to unemployment in special areas or industries, and to the special difficulties which raw material and food producing countries have to face. But the main emphasis is laid on the importance of the investment process as a cause of unemployment, and consequently the major part of the discussion on policy is devoted to measures that

should be adopted in highly industrialized countries, to international measures and to the co-ordination of national policies.

This is a most timely and useful publication. By furnishing a keen, penetrating and valuable insight into the long-range policies, it suggests the lines along which the solution of the immediate problems must be attempted. We hope it will prove of considerable importance not only in facilitating discussions on the vital problem of anti-depression policy but also in stimulating action. It should be a compulsory reading for all who are concerned with the delicate and vital task of post-war reconstruction.

Books Received

ECONOMIC PLANNING AND AGRICULTURE, by Messrs. A. N. Agarwala, P. Chandra, P. C. Malhotra and Harbans Lal. Published by Kitab Mahal, Allahabad. 1945. Pp. 120.

[To be reviewed]

LOCAL SELF GOVERNMENT IN INDIA, by Dr. M. P. Sharma. Published by Hind Kitabs, Bombay. 1944. Pp. 111. Price Rs. 2-8 as.

[Reviewed in this issue]

OUR ECONOMIC PROBLEMS, by P. A. Wadia and K. T. Merchant. Published by the New Book Company, Bombay. Second Edition. 1945. Pp. 574. Price Rs. 6-8 as.

[This is the second edition of the well-known book by Messrs. Wadia and Joshi which we had reviewed in January, 1944. In the second edition, no change has been made in the arrangement or lay-out. But the authors have brought their work uptodate, made some additions here and there and added some more books of reference. This excellent work on India's economic problems, which is well documented and competently handled, will no doubt become even more widely popular than in the past.]

RURAL KARNATAK, by M. N. Desai. Published by The Anand Publishers, Sirsi. 1945. Pp. 347+62, Price Rs. 15.

[To be reviewed]

SHORT HISTORY OF LABOUR CONDITIONS IN GERMANY, 1800 to the Present Day, by Jurgen Kuckzynski. Published by Messrs. Frederick Miller, Ltd. London, W. C. 1. 1944. Pp. 268. Price 9s. 6d.

[To be reviewed]

STALIN-WELLS TALK, by various writers. Published by Vora & Co. Publishers, Ltd., Bombay 2. 1945. Pp. 64. Price Re. 1-8as.

[This small booklet contains the verbatim record of the talk that Mr. H. G. Wells had with M. Stalin some time back; and a discussion thereon in which Mr. G. B. Shaw, Lord Keynes and others took part. The discussion mostly relates to the manner in which Wells acquitted himself in the interview, though the problems of the class war, the revolutionary weapon, individualism, etc., naturally emerge here and there. We cannot

help feeling that whereas M. Stalin talked of Socialism, Mr. Wells talked of diplomacy. While M. Stalin discussed Marxian theory, Mr. Wells endeavoured to make Stalin pro-British if not pro-capitalist. He did not face issues ; and appears yielding ground step by step or averse to discuss matters to their logical conclusion. The book will no doubt prove to be highly interesting to all. The Indian edition, however, suffers from several defects. Firstly, it has come out so long after the interview and the English edition that it has lost much of its interest. Secondly, it contains many proof mistakes. Thirdly, its cover is so cheap and shabby that even a cartoon on it by Low loses much of its fascination. But the publication of the Indian edition is warmly welcome as it will now come within the easy reach of so many readers who will surely enjoy it.]

WHITRER AGRICULTURE IN INDIA, by Dr. Baljit Singh. Published by Messrs. N. R. Agarwal & Co., M. K. Gargen, Agra, 1945. Pp. 346. Price Rs. 8-8as.

[To be reviewed]

Articles in Recent Periodicals

Economica

May, 1945—Clapham on the Bank of England *by Jacob Viner*; The Poverty of Historicism, III *by Karl Popper*; Notes on Cost *by P. T. Bauer*; Output, Labour and Machines in the Coal Mining Industry in Great Britain *by E. C. Rhodes*; Thomas Chalmers on the Public Debt *by R. O. Roberts.*

Oxford Economic Papers

March, 1945—The 'Short Cycle' in its International Aspects *by K. Forchheimer*; Capitalist Enterprise and Risk *by J. Steindal*; Myrdal's Analysis of Monetary Equilibrium *by G. L. S. Shackle*; Rationing and the Consumer *by K. W. Rothschild*; Full Employment by Stimulating Private Investment *by M. Kalecki*; Some Theoretical Problems of Post-War Foreign Investment Policy *by T. Balogh*; The Building and Contracting Industry *by I. I. Bowen* and *A. W. T. Ellis.*

The American Economic Review

May, 1945—The Consumption Concept in Economic Theory *by Kenneth E. Boulding*; Aspects of Wartime Consumption *by J. P. Cavin*; Consumption as a Factor in Post-war Employment *by James J. O'Leary*; Objectives and Guides to Policy *by Arthur R. Upgren*; Business Plans for Post-war Expansion *by Paul G. Hoffman*; Prophecies of Scarcity of Exhaustion of Natural Resources in the United States *by Harold F. Williamson*; International Policy on Renewable Natural Resources *by E. I. Kotok*; Forest Products in a World Economy *by Egon Glesinger*; The Contemporary Civilization Course at Columbia College *by Louis M. Hacker*; Introduction *by Donald H. Wallace*; General Aspects of Price Control and Rationing in the Transition Period *by J. M. Clark*; Price Control Policy in the Postwar Transition *by Clair Wilcox*; Political and Administrative Aspects of Price Control in the War-Peace Transition *by Merle Fainsod*; The Responsibility of Organized Labor for Employment *by Summer Silchter*; The Public Interest in the Terms of Collective Bargains *by Robert M. C. Littler*; Workable Competition in Air Transportation *by Kent T. Healy*; The International Regulation of the Air *by Quincy Wright*; Peace Aims, Capital Requirements, and International Lending *by I. de Vegh*; The Commercial Policy Implications of the Fund and Bank *by William Fellner*; The Future International Position

of the United States as Affected by the Fund and Bank *by Walter R. Gardner*; Cartels, a Phase of Business Haute Politique *by Theodore J. Kreps*; The Role of Cartels in the Current Cultural Crisis *by Robert A. Brady*; Postwar Federal Expenditures and Their Implications for Tax Policy *by W. L. Crum*; Postwar Effects To Be Expected from Wartime Liquid Accumulations *by Albert Gailord Hart*; Regionalism: A Tool of Economic Analysis *by J. V. Van Sickle*; Regionalism; Political Implement *by Leon Wolcott*; Crucial Deficiencies of Regionalism *by Walter M. Kollmorgen*; Agriculture in the Transition from War to Peace *by H. R. Tolley and Others*; Food and Agriculture: Longer-Run Outlook and Policy *by John B. Canning*; Work of the Committee on Agricultural Price Supports and Their Consequences *by E. J. Working*; A Report on an Experiment by an Ad Hoc Consensus Committee *by James Washington Bell.*

June, 1945—Lauderdale's Oversaving Theory *by F. A. Fetter*; The Future of Keynesian Economics *by D. McC. Wright*; The Choice of Exchange Rates after the War *by G. Harberler*; Wage Control in Wartime and Transition *by Harry Henig and S. H. Unterberger*; Experience Rating in Unemployment Compensation *by C. A. Myers*; Full Employment in a Free Society *by Arthur Smithies*: A Cross Section of Business Cycle Discussion *by J. Marschak*; Three Methods of Expansion through Fiscal Policy *by A. H. Hansen*; Alternative Budget Policies for Full Employment *by R. A. Musgrave*; Professor Hansen's Fiscal Policy and the Debt *by N. W. Chamberlin*; Fiscal Policy: A Clarification *by A. H. Hansen*; Mr. Domar's "Burden of the Debt" *by B.U. Ratchford*; United States Import Demand during the Interwar Period *by J. H. Adler*; Cost Accounting and Statistical Cost Functions *by Everet Straus*; The Hours of Work and Full Employment *by Benj. Graham.*

The Journal of Political Economy

June, 1945—The Foundation of the Bank of Spain *by Earl J. Hamilton*; The Origins of the Second Bank of the United States *by Raymond Walters, Jr*; Sociological Elements in Veblen's Economic Theory *by Arthur K. Davis*; The Volume of Money and the Price Level between the World Wars *by Clark Warburton*; Financial Problems of the Middle East *by Raymond F. Mikesell.*

The Journal of Land and Public Utility Economics

May, 1945—Postwar Agricultural Policy: A Review of the Land-Grant Colleges Report *by Theodore W. Schultz*; Aluminium and Power Control *by Charlotte Muller*; Federal Aid for Urban Land Acquisition *by Roger S. Nelson*; Wanted: One Responsible Admininistration for the Greater

Central Valley Project of California *by Arthur D. Angel*; Forge Land Requirements in the Northeast Region *by Virgil L. Hurlburt*; Some Possible Limitations of Zoning Ordinances as Devices for Controlling Land Settlement *by Alexander Joss*; Toward a Theory of Land Income *by John A. Baker*; Administration of Canadian Wartime Agricultural Policies *by Frank Shefrin.*

Town and Country Planning

Summer, 1945—Planning Policy after the Election *by F. J. Osborn*; Planning for Individuals *by Harold Conolly*; Swedish Housing and Town Planning, *by Edward G. Sandstrom*; Shopping Areas *by A. Edward Hammond*; Village Housing in the U. S. S. R. *by Nikolai Shestopal*; Why not Towns in the Country ? *by George Pollock.*

Political Science Quarterly

June, 1945—Observations on Beveridge's Full Employment in a Free Society and Some Related Matters *by William A. Berridge*; Labour's Bridgehead: The I. L. O. *by Carol Riegelman*; Financing Social Security *by Manuel Gelles*; Post-War International Commodity Trade: Public Problems and Policies *by Wallace Parks.*

Economic Record

June, 1945—The Australian War Economy, November, 1944—May, 1945 *by H. Burton*; Some Aspects of Full Employment—II *by J. M. Garland*; Rents in Melbourne *by W. Prest*; Professor Douglas' Production Function *by J. Williams*; Trends in the Concentration of Operations of Australian Secondary Industries, 1923-43 *by C. P. Haddon-Cave*; Economic Problems of Control in the Milk Industry *by C. D. Finch*; A Note On Minimum Standards for Rationed Necessities *by W. T. Dowsett.*

The South African Journal of Economics

June, 1945—The Economic Development of the Cape under Van Riebeck —Part II, *by H. M. Robertson*; The Organisation of Employment in the Transition from War to Peace—Review Article with Special Reference to South Africa *by R. H. Smith*; An Objective Ordinal Theory of Value *by G. H. T. Malan*; Consumption, Investment and War Expenditure in Relation to the National Income *by Prof. S. Herbert Frankel*; Note on the Design for the "Pearsall Memorial Founders' Medal" and New Monogram for the Journal *by C. S. R.*

International Labour Review

May, 1945—Franklin Delano Roosevelt: The Inter-American Conference on Problems of War and Peace *by R. Paula Lopes*; Accident Insurance for Dutch Merchant Seamen during

the War *by H. A. Keuls*; Wage Increases in Liberated France; Higher Appointments in Great Britain.

June, 1945—The Progress of Social Security in the Americas in 1944 *by Arthur J. Altmeyer*; Economic and Social Policy in France *by C. Bettelheim*; Holidays with Pay in Great Britain; Labour Conditions in Palestine.

Indian Labour Gazette

July, 1945—Health Research in Industry in the United Kingdom; Working of the Factories Act, 1934, in British India during 1944; Human Relations in Industry.

Indian Textile Journal

July, 1945—Textile Machinery for Indian Industry *by P. C. Jain*; The Economics of Khadi versus Mill Cloth *by V. G. Ramakrisna Ayyar*; Tuberculosis in Industry *by Dr. K. P. Mody*; The Industrial Worker in India—3 *by Lalita Kumarappa*; Distribution of Indian Textile Production *by Lalbhai R. Mehta*; Improved Types of Cotton in the United Provinces *by B. L. Sethi and M. A. A. Ansari*; The Bichromate Industry in India *by F. R. Moos*; The Millhand and His Problems *by D. Abraham*.

August, 1945—Post-war Planning *by Lalbhai R. Mehta*; The Industrial Worker in India—4 *by Lalita Kumarappa*; Science in War-time England and America *by Nazir Ahmad*; A Note on Artificial Silk *by H. M. Mulany*; Improvement of Woollen Industry in Jaipur State *by K. N. Tikku*.

Journal of Scientific and Industrial Research

July, 1945—Utilization of Nim Oil and its Bitter Constituents (Nimbidin Series) in the Pharmaceutical Industry *by Salimuzzaman Siddiqui and Chittaranjan Mitra*: Agriculture and Industry Co-operate Under U. S. Department of Agriculture.

August, 1945—Development of Alloy Steels in India *by K. N. Prahlada Rao*, Manufacture of Wireless Apparatus in India *by S. P. Chakravarti*: Scientific Co-operation with the British Commonwealth *by A. V. Hill*.

Indian Farming

July, 1945—Weather Service for the Farmer *by L. A. Ramdas*; Organised Duck Breeding and Wool Research in India *by Z. A. Hashmi*; Sheep Breeding and Wool Research in Bombay *by S. S. Khot and A K Deshpande*; Possibilities of Cultivation of Toria and Linseed in Sind *by*

R. T. Mirchandani; Groundnut Oil-cake and Rice Diet *by R. V. Lakshmi Ratan*; The Question of Agricultural Improvement in Rajputana *by S. C. Talesara.*

August, 1945—A Tree Plantation Plan for Northern India *by M. S. Randhawa*; New Strains for Old Crops in Bombay, Part I, Cotton *by B. S. Kadam*; The Problem of Estimating the Surplus of a Live-stock Crop *by S. S. Prabhu.*

Indian Journal of Economics

VOL. XXVI | JANUARY, 1946 | PART III

SOME THOUGHTS ON THE INDIAN FOOD PROBLEM

BY

ANWAR IQBAL QURESHI

Head of the Economics Department, Osmania University, Hyderabad (Deccan)

[In this paper I have made some observations on the food situation in the country, just before the War, during the War, and after the War. As regards the situation before the War, I have shown that India was about just self-sufficient in regard to her food supplies. The fact that even before the War our intake of food-stuffs was below the minimum nutritive standards, was due more to the poverty of the people rather than the lack of food supply. In peace economy, if the purchasing power is there, food-stuffs can easily be obtained from anywhere we like. England, one of the richest countries of the world, was very much dependent on the imported food-stuffs. If we have to increase our intake of food grains (which certainly is below the minimum normal nutritive standard), we will have to increase the purchasing power of our masses. The problem in peace economy is really not of more food production but of increasing the purchasing power of our teeming millions. As regards the food situation during the War, I have shown that this has been aggravated due to lack of coherent and effective policy of the Government and their inability to control prices in the earlier stages of the War. My personal experience, in various parts of the country, that I have toured during the war years, has convinced me that the so-called success of the rationing policy in the bigger towns has been at the cost of the rural areas. The present prices of food grains in India is at least 100 per cent more than the world prices, and the biggest problem in the post-war period for this country to solve is, how to adjust our price level to world price level. I have expressed grave and serious doubts about the success of regional self-sufficiency in food products in the post-war

period. The problem in this country to solve is more to improve the transport facilities than to aim at regional self-sufficiency. As far as the areas near ports are concerned, it will always be cheaper for these to buy imported food-stuffs, and I find no reason why we should worry very much about this. If India wants to become a leading industrial nation her inhabitants will have to pay very heavy price, which in the interest of nation, I do believe, should be paid. But I find no reason why we should be called upon to unnecessarily increase our cost of living by uneconomic production of food grains in the country. I find no harm in importing food-stuffs during the peace time. In a system of planned economy, it should always be easy to switch on from peace production to war production. If our plans are ready, we can easily switch on, say from the production of jute, to the production of rice, and from the production of oil seeds, in many parts, to the production of wheat.

I have concluded my paper with a plea that before adopting any food policy for the country, we must be clear in our own minds as to what we want, and then should clearly think out the most economical method to achieve that end. The food policy of the Government of India, during the earlier stages of the war, was that of hush hush, then it was that of rush rush, and finally that of fuss fuss. It is high time that we should stop fussing and do something substantial.]

"I'll tell you how I came to think of it," said the Knight. "You see, I said to myself, 'The only difficulty is with the feet ; the head is high enough already.' Now first I put my head on the top of the gate—then the head's high enough—then I stand on my head—then the feet are high enough, you see—then I'm over, you see."

"Yes, I suppose you'd be over when that was done," Alice said thoughtfully ; "but don't you think it would be rather hard ?"

"I haven't tried it yet," the Knight said gravely, "so I can't tell for certain, but I'm afraid it would be a little hard."

FOOD SITUATION BEFORE THE WAR THROUGH THE LOOKING GLASS

During the early stages of the war, the Government of India adopted a sort of hush hush policy in regard to food supplies. They then followed a rush rush policy and finally adopted a fuss fuss policy.

Food as a problem did not exist before or during the early stages of the war. There is no doubt that some economists did draw the attention to the problem of malnutrition and the insufficient amount of food available *in the country itself* to feed its population. Professor Radha Kamal Mukerji estimated that even before the war food

was not available for at least 48 million people, according to adequate standards of food intake. But it must be clearly understood that the lower intake of food is altogether different problem, and it will not be solved only by producing more food. The problem may exist even in countries which are the biggest producers of food and may not exist in a food importing country. The problem of intake of food is related to the problem of national income and employment. In India if food was not available before the war for large numbers, it was due to the fact that the purchasing power of the people was so small that they could not procure adequate amount of food, necessary for their requirements. If they had the requisite purchasing power any amount of food could be imported. The example of England is before us. She only supplied about one-third of her food requirements herself before the war, and imported the rest from other countries, and in spite of this, her standard of living before the war, was one of the highest in the world.

THE RELATION BETWEEN PURCHASING POWER AND FOOD DEMAND

It is absolutely essential that while discussing the food problems of the country, we must be very clear in our mind as to what we are aiming at. Do we want to increase the food supply in the country ? Or do we want everyone to have plenty to eat ? The two problems in a peace economy, based on the capitalistic system (which is our system of economy in this country so far) are not necessarily inter-connected. As a matter of fact they may be opposed to each other. We know that during the last great depression, while wheat was actually being burnt in some parts of the U. S. A., for lack of effective demand, in the same country more than 9 million people were unemployed, and their diet was very inadequate, owing to lack of purchasing power. Plenty by itself is no blessing in a system of capitalistic economy. We know the famous example of the man who hanged himself in expectation of plenty. More farmers in the world, during the last decade were ruined by plenty than by scarcity. The situation in India before the war was the same. Agricultural prices during the last depression had fallen to absurd level. During this period, in the Punjab and the U. P. wheat was being sold for 2 rupees to 2 rupees eight annas per maund, and

still it was hard to find purchasers. Even before the war, the price was not more than rupees 3 to 3-8-0 per maund, which did not pay even for the real cost of cultivation. The purchasing power of the farmers had become very small indeed, and there was chronic unemployment in the country. This explains the fact, why our consumption of food grains was so low, even when plentiful food was available in the country, at absurdly low prices and when any amount could be freely imported.

Considering the available purchasing power of the masses in view, there was enough food available in the country and the actual food production was not very inadequate, for the requirements of the people. When the war broke out, India was practically self-sufficient as regards her total food requirements. Our net export of wheat was about one million tons, and our net import of rice was 1½ million tons.

THE FOOD SITUATION DURING THE EARLIER STAGES OF THE WAR AND FOOD PRICES

When the war broke out and the prices began to rise there was a general concensus of opinion in the country that the rise in the prices of agricultural products, especially those of cereals, was to be welcomed, and the farmer should be allowed to reap full benefit of this rise, for he had been getting very low prices, during the last ten years. The first price control conference held in October 1939, endorsed this view, and this policy continued until December 1941 when the Government of India decided to fix the price of wheat at Rs. 4-6-0 per maund at Lyallpur and Hapur. The representatives of growers and traders made protests against this and claimed that this price was not fair and requested that a price at a level higher than this should be fixed.

The Government of India decided not only to ignore these protests but declared without any hesitation and reserve that they were not going to raise the price of wheat and were fully determined to enforce the price of Rs. 4-6-0 fixed by them.

INABILITY OF THE GOVERNMENT OF INDIA TO MAINTAIN THE CONTROLLED PRICE

The Government of India had suddenly decided to control the price of wheat presumably at the request and in

the interest of the wheat consuming provinces but had not made the necessary arrangements required to enforce their regulations. The worst disservice that a Government can do to a country is to pass a law and then not to enforce it properly. Once a feeling of disrespect for a law is created in a country, this feeling generates various other forces of very detrimental nature and evil consequence. The whole morale of the community is undermined.

The Government of India had passed a law fixing the price of wheat at Rs. 4-6-0, but unfortunately had neither made any arrangements beforehand to enforce this law, nor had they the requisite machinery to carry out their wishes. They had not bought or stored enough wheat beforehand which was a necessary pre-requisite to control the market price of wheat. If the traders had hoarded their stocks, or were reluctant to sell their wheat, at the price fixed by the Government, and the Government had adequate stocks and could release them from time to time, they could indirectly force the trade to follow their example. This was a course of least resistance, economic in its nature, least harmful in its practice, and most practical in its form. But unfortunately this course was not available to the Government as they had no stocks.

In the absence of economic control and economic pressure, the only other alternative open to the Government was executive pressure and executive control. Again this alternative was not available to the Government as the price of wheat had to be controlled through the provinces, and under the existing constitution this control had to be exercised through the Provincial Governments. However willing and keen the Governments of "Consuming Provinces" may have been to exercise this control, they were doomed to failure as they had not enough wheat. The wheat had to be brought from the Punjab, and the Punjab government was very unwilling and reluctant to exercise this control. Therefore, the situation grew from bad to worse. Previously the consumer had only complained of the high price of wheat but now even when he was prepared to pay this price wheat was not easily and freely available from the usual suppliers of wheat.

The wheat supplies began to disappear gradually and the shortage of wheat began to be felt seriously. The usual trade channels of wheat began to disappear; Govern-

ment subsidised and helped stores began to appear. The queues began to increase and the black markets in wheat, where wheat was obtainable without difficulty and waste of time but at a price much higher than that fixed by the Government, began to flourish. The inability and failure of the Government of India can be well realised from the fact that the situation was at its very worst at their own headquarters.

Delhi which is conveniently situated near the two most important wheat growing areas, the Punjab and the United Provinces, was the worst sufferer. It reminds me of an Urdu proverb : Shadow under the lamps. (چراغ تلے اندھیرا)

If the Government of India was unable to manage the situation in a small area like Delhi which was under practically its direct administration, and which itself produces considerable wheat, and is situated between two important wheat producing centres, how could it ever hope to manage the situation in other areas.

BAD EFFECTS OF THE FAILURE OF FIRST PRICE CONTROL

The Government had to admit defeat. They had to swallow their pride. They were compelled by the force of circumstances to take back their emphatic declarations of maintaining the price at the level and not increasing it any further. The serious food shortage in Delhi and other towns in Northern India compelled the Government to raise the price from Rs. 4-6 to Rs. 5.

It is significant to observe here that wheat shortage was felt in Northern India which is the principal grower and producer of wheat; but no such shortage was felt in other parts of India which are the importers of wheat. Again it is rather ironious to note that in Delhi, which is a wheat producing area, in those control days, when wheat was not available, rice which is very little produced in this area, and in which the country as a whole is deficient, was freely available and people were forced in Delhi to resort to eating rice instead of wheat.

The inability of the Government of India to maintain the price at Rs. 4-6-0 and their willingness to increase it to Rs. 5 under the force of adverse circumstances, opened a door for further expectations. The growers and the trading

community when discovered that a Government who in spite of emphatic declarations was forced to increase the price within six months, could again be made to yield to their wishes and raise the price still further, if stocks were hoarded a little longer and the pressure made a little stronger.

The decontrol of prices, the Bengal famine, the recontrol of prices, the rise in prices which at present for food-stuffs is at least 300 per cent higher than the pre-war prices, rationing of food-stuffs, are all too well known and recent experiences on which I need not dwell here. I have discussed this at some length elsewhere.[1]

The rise in the prices of food-stuffs has seriously affected people with lower incomes. There is no doubt that there has been a rise in wages, but to the best of my knowledge the general rise in wages (except in certain abnormal cases) has not been more than double the prewar level, while the rise in prices of almost all necessaries of life has been at least three times more. The so-called success of rationing in few big towns has been at the expense of smaller areas and the suffering has been greater in the rural areas. But I am not so much concerned with this aspect of the question in this paper as about the future.

As regards the present food situation in the country, my opinion is that if the Government had followed a fixed and firm policy in the earlier stages of the war, and had fixed, controlled, and enforced food prices at least forty per cent lower than the present prices, things would have been much better, and the post-war price level problem would not have been so difficult as it will be now. For instance, I would have liked to stabilize the price of wheat at about Rs. 6 per maund at Lyallpur and Hapur the two prominent wheat markets of India. If we had succeeded, and there is no reason why we should not have succeeded when we are practically self-sufficient as far as our wheat requirements are concerned and the import price is no higher than this, then other price levels would also have been stabilised near this level, as wheat prices greatly influence other agricultural prices.

[1]See Qureshi: *The Present Food Situation in India.* India Book House, Hyderabad-Dn.

OUR PROBLEM IN THE FUTURE

The world price of wheat today is at about five rupees per maund and once normal conditions prevail, our price level will have to come near the world level. We are too much under the shadows of war conditions and scarcity and our thinking has been influenced a good deal due to our war environments. But as economists it is our duty to look much ahead of the present and indicate the shape of things likely to come, and set forth the problems that we shall have to face and decide. Some of these are as follows:—

1. The Indian price level, especially as regards food-stuffs, is at present much higher than the price level of those countries who are the chief producers of food-stuffs.

2. When things come to normal (however long that may be but I think it is not likely to exceed two years at the most) and shipping is freely available, we will have to face severe foreign competition.

3. Not only we will have to face foreign competition, but also internal competition. At present most of the area have been trying regional self-sufficiency, although their cost of production is much higher than other regions, owing to restrictions of transport, they are enjoying complete protections. This will no longer be the case after transport facilities are restored to the normal.

4. We have to decide between cheap imports and our own high cost production.

5. India cannot easily compete with other countries such as Australia, U. S. A , and Canada in the production of wheat, and Burma, Siam, and Malaya, in the production of rice. These countries are especially at great advantage to supply our coastal areas. Wheat production in India is chiefly concentrated in the Punjab, Sind and the United Provinces. Madras, Bombay and Bengal are at too long a distance from these wheat producing centres and internal transport costs are usually much higher than shipping freights.

Again, wheat being a superior cereal as compared to rice, we want to encourage the consumption of wheat. How are we going to do this ?

6. We want to embark on an extensive industrial programme, but being behind in this race, our cost of production in the beginning at least is likely to be higher than other countries, but at the same time in the interest of our

country, we have to persuade the consumers to bear this additional burden.

Must we also impose an additional burden of high-priced foodstuffs especially when we all have been proclaiming in the past that the capacity to bear additional burdens in our country is rather limited ?

Is it absolutely necessary that India should produce all her foodstuffs from her own soil ? At present there seems a general consciousness prevalent in the country to see that the Bengal tragedy is not enacted again and we procure all the necessary foodstuffs in the country to feed our population.

I beg to differ from this.

We all now know that the Bengal famine was not so much due to a serious shortage of food in the country, but was the result of various forces which were mostly man-made.

If England during the war in spite of U-boats and other grave sea dangers could rely on foreign foodstuffs, there is no reason why India should jeopardise her whole economy on the feeble fear that if war comes, we will be starved. The food situation in India was aggravated due to lack of transport facilities and firmness on the part of the Government to handle the situation.

In spite of the fact that there is plenty of coal in the mines in this country and we have the largest labour force in the world, the whole economy of the country has been jeopardised due to our decrease in coal output.

In my opinion one of the greatest follies of our war economy was the mismanagement of the coal situation. As railways are the biggest consumers of coal, the Government of India, until very late, refused to make an appreciable increase in the price of coal, with the result that wages in the coal mines lagged behind. Workers got better wages elsewhere. Serious shortage of labour power was felt in the coal industry and the output declined. With the decline in coal outpot, transport facilities decreased. As less and less coal was available for our factories, our production of number of important articles declined and a huge black market developed. As a result of a big rise in the price of black market coal, prices of other substitutes increased and the cost of production went up. Similarly, owing to a tremendous increase in the price of fire-wood, in some cases about 400 per cent., the cost of living also went up. This

necessitated a further rise in wages. Due to shortage of coal, restrictions in many parts of the country were imposed on the consumption of electricity. In the absence of kerosene, the demand for seed oil increased. It was more profitable for the cultivators to grow oil seeds than foodstuffs. This is one of the reasons why in spite of our efforts to grow more food the results achieved are very poor.

If the planned economy of India is going to be managed in the same way as the coal situation, then heaven help the inhabitants of this country.

As regards the food problem in the future, I am of the opinion that we should not be guided by the fear of war and we should not try to be self-sufficient in food grains *at all costs.* The agriculturist should be free to produce these crops which bring him the highest returns.

In a system of planned economy (about the success of which in this country, I have grave and serious personal doubts), we should be able to switch on without any delay from peace to war needs. Our plans ought to be ready. For instance, in the ordinary course of things we should produce jute and oil seeds for export if we get better prices and import rice and wheat, if these are obtainable at cheaper prices from outside.

In case of emergency our plans ought to be ready for substituting rice for jute and wheat for various types of oil seeds.

Let us all be clear in our minds as to what do we want, and then should formulate an effective policy, to achieve that end. I am afraid, so far neither we are clear in our own minds as to what we actually want, nor have we prepared an effective policy to achieve that end.

In a country threatened by serious shortage of food supplies no effective check has been made to control the acreage under non-food crops until recently. As a matter of fact until lately this showed a tendency to increase. Our agricultural statistics are in a hopeless muddle.

In spite of my best efforts, I have been unable to find out clearly the actual increase in the food supply of the country, as a result of our efforts to grow more food. I would like to conclude this paper by reproducing a quota-

tion from "Alice's Adventures in Wonderland", which aptly describes the situation in this country :—

The Dodo suddenly called out, "The race is over!" and they all crowded round it, panting, and asking, "But who has won?"

This question the Dodo could not answer without a great deal of thought, and it sat for a long time with one finger pressed upon its forehead (the position in which you usually see Shakespeare in the pictures of him), while the rest waited in silence. At last the Dodo said, "Everybody has won, and all must have prizes".

(*Alice's Adventures in Wonderland*)

THE INDIAN FOOD PROBLEM

BY

R. V. RAO, M.A., B.T.

Professor and Head of the Department of Economics, Dharmendrasinhji College, Rajkot, and Secretary, Post-war Reconstruction Committee, Rajkot State

[In this Paper, an attempt has been made to deal with our food problem in the short, and the long period and suggestions have been given regarding the principles which should be borne in mind. It has been shown that there is, at all times, a serious undernourishment of some-third of the population. It has been shown by facts and figures that food supply has not been able to keep pace with the rapidly growing population in India. Reference has been made to the official and non-official investigations which have shown that a large section of the population has always lived on the starvation level. That is why the deficit economy of India has become a stock-phrase even among economists. Even qualitatively speaking, foodstuffs containing an assured supply of proteins are not developed. That is why Sir John Megaw held the view that 39% of our population are adequately nourished, 41% badly nourished and 20 poorly nourished. Reference has also been made to the low intake of vegetables, fruits, milk and milk products which make our diet ill-balanced. Regarding food planning in the long period, the objectives should be (1) to achieve a certain amount of self-sufficiency in the matter of food supply, and (2) to raise the purchasing power of the masses so that every one can be assured an adequate and balanced diet.

All these will take a long time that is why we must have food planning during the short period to begin with. The few years following the war may be considered to be the short period when imports are not restored to normal, transport situation still remains difficult and supplies inadequate and food controls continue to exist in some form or other. It has been emphasised that, in the short period, the remedial measures will have to be more on the side of distribution, propaganda and education than production, except in some cases where it is possible. Several suggestions have been given as to the way in which an enquiry has to be conducted regarding the effects of food difficulties on the standard of consumption of the various income groups. The need for the use of hand-pounded rice, development of industries like oil-pressing has also been emphasized. These are things in which direction the All-India Village Industries Association, Wardha, has been trying to influence the public opinion. It is also suggested that some areas may be compelled to grow food crops in which case we have to guarantee fair minimum price. The need for protecting the interests of 'vulnerable groups' by mid-day meals, supply of milk at concession rates etc. has also been emphasised. In conclusion, it has been shown that it is not enough to grow more. We should grow the right type of food from the nutritional

point of view. It is emphasized that the co-operation of the sociologist, economist and dietician is indispensable in the matter of food planning. All these will, however, be ineffective and a cry in the wilderness unless the purchasing power of the masses is increased.]

It is a good sign of the times that everywhere we talk of food planning and several people even go to the length of saying that plans and plans have become the order of the day, and the word planning has become a catch-phrase meaning anything, everything or even nothing. Considering the question of our food problem, one should write that the cries of food that we hear around us are not created by the present war. Even during the years of peace that preceded the present war, food was a problem for us. It is unfortunate that we have begun to realise that our food position is perilously inadequate, only after the bitter experiences of the Bengal famine and launched on a food production drive only under that stimulus. The Gregory committee rightly observed "Taking an average of years, she may broadly be described as one slightly less than self-sufficient in food grains as a whole, nevertheless, the self-sufficiency implied by this statement at the very best is self-sufficiency at a very low level of *per capita* consumption. We have it on the authority of the highest nutritional expert in this country, Dr. Aykroyd that there is at all times a serious under-nourishment of some-third of the population."

SOME STATISTICS

It is well-known that agriculture forms the basis of our economic life ; the proportion of population dependent on agriculture having risen from 65% in 1872 to 75% in 1940. So long as the cultivator was producing for his needs and population remained fairly stationary and village communities organized as closely knit economic units working in close co-operation, there was not much difficulty, but "the peace which the British rule brought in its wake has been followed by an increase in the population with its corollary in the shape of Malthusian checks like starvation and disease." It will be of interest to note that population in India has nearly doubled itself over the past three-quarters of a century, for example in 1872, the population of India was 208 millions and in 1941 it was 389 millions. Another important thing that one may consider here is

that, there was the loss of occupational equilibrium, following the economic transition in India, and resulting from the decline of cottage industries which aggravated the problem of our increasing numbers. Thus, the pressure of population on soil is increasing day by day.

But statistics show that the area of cultivated land per person depending upon agriculture shrank from 1.2 acres in 1901 to 1 acre in 1941. That is why, we have got to plan for our food supplies so that everyone of us is ensured of minimum subsistence.

The various official and non-official investigations have shown that a large section of India's population has always lived on the starvation level. It is true that we are confronted by the absence of reliable statistics particularly relating to agricultural production in India. But the available figures are enough to reveal a distressing situation. That is why Dr. Radhakamal Mukerjee rightly says "India is to-day deficient in her food supply for about 63 million persons." Taking British India, the index number of variation of population and production of food grains are as under :—

	1930-31	1940-41
Population	100	115
Food	100	93

The need for planning our food supply can easily be appreciated when we consider the figures of food production. They prove that a large majority of our people has always lived on the starvation level. Statistics of food production show that between 1910 and 1938 the production of Bajra increased by 25%, barley by 57%, jawar by 10%, wheat by 4.5% and rice only by 3.5%. The production of rice which is, indeed, the largest single crop in India has remained almost stationary roundabout 29 million tons. Statistics show that during 1934-35, India imported 25,94,000 tons of rice and paddy and imports maintained high level in subsequent years. Further, the acreage under food crops like that under cash crops has not kept pace with the growth of population. The available figures show that during the period 1908-09 to 1917-18, 0.87 acres per head of population was devoted to food crops while during the period 1928-29 to 1932-33, the acreage had shrunk to 0.79 per head. The figures naturally present a distressing situation.

OUR DEFICIT ECONOMY

The deficit economy of India has, therefore, become a stock-phrase even among economists. Even qualitatively speaking food-stuffs containing an assured supply of proteins are not grown. Nutrition specialists say that the food, that we take, should contain sufficient proteins for body-building, minerals for improving our blood and vitamins for ensuring growth besides others. Food, in short, should be balanced and sufficient. Considering the situation in India, one should say that the use of cereals in our dietary reveals our poverty. Little use is made of protective foods such as milk, fruit, vegetables etc. It is no wonder the worst sufferers are children, expectant and nursing mothers called 'the vulnerable groups'. Nutrition experts observe that an individual requires 10 ozs. of vegetables and fruits every day to have an adequate supply of vitamins and mineral salts. The point is how this is possible when the area under cultivation of vegetables and fruits is hardly 2% of the total area. Similarly the *per capita* consumption of milk in India is 7 ozs. per day whereas it is 35 in Holland, and 53 in New Zealand. There is a certain amount of truth in saying that the use of less nutritional cereals, low intake of protective foods, milk and milk-products make our diet ill-balanced. Let us also remember that we have to reckon not only with chronic shortage but also with the price, which is beyond the reach of the masses. The following table given by Dr. Aykroyd shows a common and ill-balanced and well-balanced diet:

Per Consumption Unit in ozs. Per Day

	A common ill-balanced diet	A well-balanced diet
Cereals	20	15
Pulses	1	3
Green leafy vegetables ...	2	4
Non-leafy vegetables ...	2	6
Fats & Oils	0,5	2
Fruits	0	2
Milk	2	8

From this table, and the foregoing paragraphs we can easily see how the vast majority of the population lives on a diet far more remote from the most moderate standards of adequate nutrition. It is no wonder, according to Sir John Megaw, 39% of our population are adequately nourished, 41% badly nourished and 20 poorly nourished.

FOOD PLANNING IN THE LONG PERIOD

We must remember that, if we follow the Tennessee Valley Authority example, we can bring about 170 million acres of barren land under cultivation. Further, a part of the land used for commercial crops should be devoted to food crops. Thirdly, the yield from the existing land should be increased. At present the yield in lbs. per acre of some crops in India and other countries are :—

	Rice	Wheat
Siam	1418	...
Egypt	3006	1182
Italy	4880	1392
Japan	3417	...
India	1008	678

We can improve the yield of crops by the development of irrigation facilities, growing better varieties of crops, use of better manure, better systems of cropping and better implements. We must also remember that we have to secure an increased production of vegetables and fruits. The need for the co-operation of the peasant is emphasized which, if it is to be achieved, can only be achieved by a sound system of rural education. We must have comprehensive agricultural statistics as a preliminary to any attempt at planning food production and distribution. Even as regards the machinery for planning, the Food Department which is now functioning may be used with advantage even during peace time. It is high time we make use of the valuable war time experience we have gained in the sphere of food supply. To sum up, the objective of food planning in India should be :—

1. To achieve a certain amount of self-sufficiency in the matter of food supply.

2. To raise the purchasing power of the masses so that everyone can be assured an adequate and balanced diet.

All this can be achieved only during the long period.

FOOD PLANNING IN THE SHORT PERIOD

The Government of India have done well in appointing Dr. V. K. R. V. Rao as officer on special duty for the purpose of conducting enquiries and for making proposals for food planning in the short period to begin with. The few years following the war may be considered to be the short period, when imports are not restored to normal, transport situation still remains difficult and supplies inadequate and food controls continue to exist in some form or other. It is good Dr. Rao will be touring the country on a country-wide investigation of the nutritional needs, conditions and resources and also possibilities which will no doubt serve a useful purpose. The objective of this enquiry is said to be threefold :—

1. How to bring about a rapid improvement in the feeding of the people by a rational and planned policy regarding utilization of food grains,

2. An examination of the reasons of under-nourishment and deficient diet, and

3. Better food production through organization of production and equitable distribution.

In the short period, the remedial measures will have to be more on the side of distribution, propaganda and education than production except in some cases where it is possible. The importance of distribution and educational measures in a food plan in the short period need not be over-emphasized.

The enquiry, it is hoped, will consider the effects of food difficulties on the standard of consumption and what type of foods can be increased during the short period. Information will no doubt have to be collected from community-feeding centres, hotels, etc. so that we will be able to find out the incidence of war on the diet of the various income groups. This also involves the conduct of food budget enquiries which means co-operation of a number of agencies.

It may here be pointed out that if we really consider the nutritional needs of the people, we should encourage the use of hand-pounded rice which is not only nutritious but also adds to the food supply by 10%. The use of wheat flour of 80% extraction has, indeed, been officially ordered in England. We can adopt such methods with advantage in India. Similarly, if we encourage oil-pressing as a cottage industry, oil-cake can easily be used for the cattle in the villages which means more yield in milk which is said to be a complete food. These are things in which direction the All-India village Industries Association, Wardha, under the presidentship of Mahatma Gandhi has been trying to influence public opinion.

The Eastern Economist rightly suggests two methods by which we can grow more food :

1. Legislation by which some areas may be compelled to put certain proportion of their holdings under food crops, and

2. In which case the farmers compelled to grow more food crops should be guaranteed fair minimum price. Manures and fertilizers may also have to be supplied at concession rates. Similarly, facilities like lower water rates may be given. We must try to bring about a change in the consumptive habits of the people. The principal rice eating tracts should take to the use of wheat. Midday meals should also be supplied to school-children at concession rates. Children and expectant mothers should be supplied with milk at concession rates. There should, in fact, be a gradual improvement in the national dietary until it comes to the normal. Let us remember that it is not enough if we grow more. We should grow the right type of foods from the point of view of nutrition. All these need not wait for a long period. We can begin to do something even from now, in right earnest.

CONCLUSION

Minimum standard of nutrition is the one in which the co-operation of the sociologist, the economist and the dietician is indispensable. Let us also remember that all these will be useless unless we give the necessary purchasing power to the masses. That is why it is rightly said a food plan in the short and long period should form part of a wider plan of economic development which will ensure equal avenues of employment for one and all.

THE INDIAN FOOD PROBLEM

BY

B. GOVINDAROW, M. A., B. L.

Member, Academic Council & Senate, Andhra University

At no other time in the history of India has the problem of food supply attracted the attention of the Government and the public so much as during the past five years. The world opinion was focussed upon it. In the light of our past bitter experience, we have to lay well and truly the foundation for regular supplies of healthy food to all our countrymen which will help them to better their social, moral and economic position and play a notable part in our national life.

The war is over, but we cannot be sure of normal conditions for some time to come. However, the situation is eased ; questions of priorities, currency, transport and the like have become less serious. The present times demand that the productive food resources are to be developed with greater vigour, work should be provided to all including the demobilised personnel and the standard of life of the people raised. Peace-time gives opportunities for rectifying the mistakes of the past, constructing the present and providing for the future. Above all, the food problem of one region in India requires to be considered with the problem of other areas. We have to go a long way without relaxing our efforts before we can be satisfied that food is made available to all the people and that it conforms in quantity and quality to what we should wish.

The war meant controls with reference to production, distribution and transport of food-stuffs. The Government had also to find money to buy them and the arms needed for the fighting forces and had to evolve a special type of war-finance. The war enforced co-operation of all active elements in the economic and military spheres. Hoarding of food-stuffs by growers and consumers due to fear of future uncertainty, black-marketing and exploitation by middlemen, exports to foreign countries without thought of our requirements, were the causes partly responsible

for our trouble. Conditions in rural areas were worse than those in the towns. Failure of crops precipitated famine. The results were mortality due to starvation, people living on herbs and roots, parents selling children, organised riots by peasants, break of epidemics and the shock to public morale. The people of Bengal, Madras, Malabar suffered badly. In India, although there are deficit areas, our dependence on foreign imports of food-stuffs is not much. The loss of Burma, etc., involved a loss of about 5% of our total annual consumption of rice and about 2.5% of total food grains. In other words, the war cut off imports of rice from Burma, Thailand, Indo-China amounting to 1 to 2.5 million tons a year and representing the deprivation of food for 12 out of 240 million rice-eaters. Various ordinances and laws passed by the authorities were not effective. The Central and Provincial Governments did not have a comprehensive view of the situation, had no forethought to consider India as one unit. They introduced controls on one food grain after another as occasions demanded, and hence uniformity in procedure pertaining to production and distribution of supplies and consistency of policy as between the provinces was absent. In the early stages, surplus provinces did not supply food-stuffs to deficit areas when the country is interdependent economically. In Bengal, during the famine days, 2 lakh persons died per month due to starvation. No doubt, the Departments of Supply, Commerce, and of Food gained experience about issues relating to production of rice and other food-stuffs, and in regard to their purchase or procurement for civil and military needs. But the results were far from satisfactory.

Though the U. K. produces only a small part of her needs, under the strain of war, the Government managed its affairs in such a way as to keep up the health and physique of the population in spite of restrictions and controls. Administrators, social reformers and economic experts were convinced about the success of their wartime policy and became confident as to their ability to give to their countrymen a higher standard of nutrition in times of peace. Even during her crisis, Britain wisely avoided making the experiment of regimenting life. It must be remarked that the growth of concentration of control over production and distribution is no longer regarded with distrust and that even governments have become parties in national interests. We require, at

the same time, effective policy to afford protection to consumers from the exploitation of monopolists. Recent history has shown that self-regulating economic system does not fare well and that man's economic life should be ordered. In spite of the disastrous results of the world war, in certain spheres, it has proved helpful. From the larger view-point, it has been showing the beginnings of a socialist revolution. People all over have come to know that there is something more in the Russian experiment than a mere expression of the communist idea, the Bolshevist doctrine. Even in Britain, an approach to socialism is introduced and full state-control will become an impressive feature of her future economic organisation. As elsewhere, in India all are agreed that the war will have been fought in vain should the status quo be kept up. We have made sacrifices for collective well-being and look forward to the evolution of a healthy democratic society.

The problem of population in India is connected with the socio-economic issue and with the food-problem in particular. From 1931 to 1941, our population has increased by 35 millions and, at the present rate, it may stand at 430 millions by 1951. Our birth-rate is 48 per thousand, being highest in the world, while the density of population per sq. mile is about 200 which is higher than the average; some parts have a density of even 300 to 400. In spite of the frightful death-rate due to famine, war, epidemics, large numbers of the people are steeped in poverty and misery, with the result that their life has become cheap. The problem we have to face now and in future is how to combat the pressure on our resources caused by the addition of these millions. There is not much scope for inter-provincial migration though as a long-range plan, colonization by non-provincials in sparsely populated areas may be encouraged. We do not have many open spaces to fill. About 20% of the total land area is covered with forests of which 65% is owned by the State and 40% of the total forest area is inaccessible; this land cannot be cleared even in the interests of agriculture as the forests help even distribution of rainfall and mitigate the ravages of floods. Agricultural land having reached maximum absorption limit is unable to maintain the populace. Besides, about 30 per cent of our population is under-nourished, and it is not known whether it is due to their lack of purchasing power or food-shortage. Many drag on their weary existence underfed and there is no question of asking them

to cut their consumption. The daily caloric requirements of an average Indian are 2,800 calories. The food-supply is going down and there is a net deficit of food for about 48 millions of average men. There is also deterioration in the quality of our food grains ; instead of superior grains as rice and wheat, inferior ones are grown. The poor are unable to buy articles of better diet as ghee, milk, pulses, sugar etc. The poverty and indebtedness of the ryots disable them to pursue scientific farming for the production of quality-foods. Minimum food is to be assured to our teeming millions. While we should produce more food, we have to adopt measures for checking the growth of population through a change in outlook. Until that is done, we cannot fortify our economic and even our political life.

Agriculture which supports about 75 per cent of our population is bound to be our main industry. The removal of its social and economic defects and its all-round scientific development will fill up the gap between the capacity and wants of our agriculturists, and leaves a margin for their cultural growth. The workers engaged in the rural reconstruction schemes should know that the richest reward of their work has to be the regard of those whom they serve, as it will be the most powerful stimulus for further work. India's purchasing power and her prosperity depend on the value in money which the ryots and agricultural labourers secure. A remunerative price for agricultural produce will lead to a rise in living standards of both rural and urban population. Principles on which the prices of agricultural goods are to be fixed are to be thought out. If proper steps are taken, within five years, we will be able to increase the production of pulses and provide at least 3 ozs. per head. We must aim at producing an additional ten million tons of food grains to keep pace with the growing population and to spare some grain for our livestock. Scientific advance being made in different directions will help output of heavy-yielding and energy-producing crops. What is needed is a change in the agricultural policy, and propaganda for expansion of superior crops of nutritive and protein value. In the light of our nutritional needs, we have to plan rotation of crops in relation to combinations of climate and soil and explain to the ryots the utility of their adoption. We have to translate results of agricultural research into practice on all holdings. Production of commercial crops is to be curtailed and the land used for food-crops at a time

when people have no food. A reform of agricultural and land-tenancy systems will help to increase food products, as also the yield per acre. Only one-fifth of the area is under irrigation crops. The use of fertilizers can only come in with increased irrigation facilities. The Government propose establishing a factory at Sindri near Dhanbad for manufacturing 3½ lakh tons of sulphate of ammonia per annum. It will also give rise to subsidiary industries to produce nitrogenous products being near the coal mines. Similar projects to manufacture artificial fertilizers await execution in Madras. If prices are stabilized, the use of fertilizers proves economic. One maund of sulphate of ammonia will give an increase of 3 maunds of paddy and 2 maunds of wheat. We have to devote our attention to conserving manures that are available. We produce nearly 160 million tons of cowdung capable of manuring 25 million acres at a rate of 40 lbs. nitrogen per acre. But we are making use of only two-fifths of this amount. So, we have to provide other sources of fuel to save the manure. To provide fuel and timber, village forests are to be planted and unused lands are to be used for growing fuel and for producing material for composting. About one million tons of bones are said to be available every year in our country, and that of this quantity 3 lakh tons are collected and 2 lakh tons crushed giving about 50,000 tons of bone-meal. We have to start mother seed-farms in all provinces and large seed-farms under landlords for multiplying the quantity and variety of seeds of food grains. For this purpose, loans are to be given on a liberal scale. Besides, sub-soils are to be studied. We have resources in rain, rivers etc. which will help us to increase the area under irrigation. As was pointed above, irrigation is very important in a country like India for the production of food. Apart from the great irrigation works existing and proposed projects at Duduma and Bagara in the Jeypore State of Orissa, near Hospet on the river Tungabhadra, at Polavaram on the river Godavari, we see ere long electric power stations to be made use of for various purposes. It is gratifying to learn that the Government has helped the Provinces and States with grants totalling Rs. 36 lakhs for executing their emergency irrigation schemes. More work has to be done in this direction. Again, to a certain extent, border forests can be cleared ; wastes can be reclaimed and swampy and water-logged areas, semi-arid and salt-coated zones made fit for ploughing. Sandy tracts can be utilized for growing

plantation trees and fodder plants. The problems of land reclamation and utilization, of soil conservation are varied requiring systematic effort by geologists and engineers. Wè have to make use of waste and grass lands for the needs of man and cattle.

We are all familiar with the many plans for post-war economic reconstruction, all aiming at bettering the lot of our people. For example, the Bombay Plan insists on balanced economy and expects in 15 years to double the *per capita* income by increasing agricultural output to twice the present figure and that of industries to five times the existing level. The Peoples' Plan to cost Rs. 15,000 crores starts from the view-point of increasing the purchasing power of the people. It places modernisation of agriculture in the forefront by which the standard of life of the masses can be trebled in 10 years and agricultural production increased by 400 per cent. The Agarwal Scheme is based on the village unit and the rehabilitation of agriculture and allied arts to provide food and other needs to the people. The Government have their own development plans. They realize that food-supply merits their immediate and primary attention. A National Chemical and Physical Laboratory at a cost of Rs. 80 lakhs is reported to be set up. Also, a specialised Institute of Food Technology is to start functioning. It is being increasingly felt that the different categories of research—agricultural, medical, industrial—are organically related.

What is our present output of grains and how are we to increase it ? Rice is the staple food in many provinces and the area under it is to be extended and intensive cultivation undertaken to increase production. Our imports of rice from the countries in S. E. Asia are small and we have to attain self-sufficiency. The production of wheat in India is about 10,100,000 tons per year and the normal consumption about 8,420,000 tons. The normal production of millets in British India is 7,540,000 tons. An additional output of nearly 850,000 tons of food-stuffs, primarily of rice, is estimated for the year 1944-45, as the result of the help given by the Government of India by way of loans and subsidies to the Provinces and States out of the Central revenues and Cotton Fund. Compared with the pre-war average of 3 years ending by 1939, the area under grain crops in 1943-44 had increased by over 11 million acres giving an additional yield of 4 million tons of food grains. The Government

are evolving a basic scientific policy to promote agricultural development and to produce and provide nutritive food for our population. Under various heads—irrigation facilities, land clearance and development, manures and seed distribution, compost making, bonus to cultivators for diverting cotton areas to food crops, fish production and related miscellaneous schemes—the Government made grants amounting to Rs. 2,67,96,744 and loans totalling Rs. 2,95,-17,987. This is only touching the fringe of the problem. We have to produce more and improve the variety and quality of our food-stuffs. It will be of interest to know that England has increased its acreage under crops by 90 per cent in 5 years of wartime, while India's percentage increase has been 3. England and Wales out of the 37 million acres, had only 11 per cent under the plough and have now increased it to 20 per cent, while India has had about 36 per cent of its area under cultivation. Evidently, the position is to be improved appreciably by creating additional facilities for irrigation, drainage, land-reclamation and by giving other kinds of assistance. The Indian Government already sank over 2,500 tube-wells at a cost of Rs. 4·5 crores and built nearly 17,000 masonry wells at a cost of about Rs. 2 crores. They have also given finance for the procurement and purchase of good seed of the value of Rs. 1.5 crores as loans and Rs. 50 lakhs as grants. Steps are being taken to train bio-chemists for converting town-refuse into manure. The authorities were able to secure 65,000 tons of ammonia sulphate and allotted 30,000 tons to rice areas capable of manuring 4,50,000 acres which may add a million maunds to the yield. Plans are afoot for getting tractors, dairy machinery, pasteurising plant and marine engines to equip boats for the transport of fish. It is a common phenomena to see crops worth crores of rupees being spoiled by locusts. So, attempts are to be made to defeat the formation of swarms at the breeding grounds.

It is necessary to have long and short-term policies to improve our national diet. The enquiry on nutrition has revealed the need for a substantial increase in the production of protective foods as food yeast, fish, milk, poultry, oils, fats, and the use of mixed dietary. It is said that food yeast can be manufactured far cheaper than any animal product on a large scale due to the big supplies of molasses of about 500 thousand tons. At least 3 lakh tons per annum could be available for conversion into food or fodder yeast. It is a source of healthy food for the poorer

people. It will enrich the diet, is a corrective for malnutrition, contains high grade proteins and vitamins of the B variety , and it is said that we can produce dry yeast from molasses sufficient for 25 million people at quarter of an ounce per day on the basis of one lakh tons of yeast per year. It can be made available to rice-eaters and in the case of wheat-consumers it can be mixed with flour and *atta*. This material can also be introduced for civil consumption through schools, hospitals, health and maternity centres etc. The Government is reported to be looking into the possibility of increasing *milk supply* and developing marketing organisation under Indian conditions. We have about 200 million head of cattle and yet the average milk production per head is about 750 lbs. per year. With proper feeding and breeding, we can get more milk from our cows and buffaloes and it would be possible to double our milk-production in ten years. Another chief food is *fish* for about 150 million people, and their requirements at 2 ounces a day would come to 3 million tons of fish a year. We have rivers, tanks and a long sea coast which carry fish. Our present estimated catch ranges round 6.5 lakh tons. The Fisheries Departments should give all the needed equipment and help in increasing our catch. According to the opinion of experts we can increase our stocks of *poultry* tenfold in five years by organised efforts. Introduction of varieties of *potatoes* and *root vegetables* is also useful and we can get large yields with the use of chemical fertilizers. *Soya beans* are to be popularised as they give more fat and protein than wheat. Production of *pulses*, in the opinion of experts can be increased in five years so as to provide at least 3 ounces per head of the population. We produce about 4 million tons of *oil-seeds* of all varieties. If we are able to crush the whole of that supply, we can obtain 1½ million tons of oil fats and 2½ million tons of oil cake. *Fruit-farming* is bound to develop with suitable transport, marketing facilities, cold storage. This industry supplies nutritive diet, yields income to growers and gives them alternative occupation, and helps the rise of rural industries as canning, jam-making, preservation of fruit. In this field of work the local governments and non-official societies have to figure most. *Sugar* is a necessity for the rich and it should be made available to the poor. In 1940-41, the area under sugar-cane was about 4,559,000 acres and production 10,95,400 tons. Till March 1942, our problem was one of over-production and those interested in the industry used

to restrict and control production. At present, the area under sugar-cane has to be increased so that production of sugar will grow with the larger output of cane. The influence of monopolists like the Sugar Syndicate of the U. P. and Bihar is to be curtailed, while their experience is to be availed of. Only a portion of sugar-cane is utilized in the production of *gur* which is a nutritious food. In regard to Madras, the Provincial Sugar-cane Committee observe that due to the favourable tropical conditions in Madras for cane-cultivation, due consideration should be given to the development of sugar and jaggery industries. Madras Presidency imports more than half of its sugar-requirements. So, new factories should be started in suitable places while the existing ones are to be raised to the level of economic units. The Government should adopt measures to supply the ryots with manures and implements to get more yields of cane, and help entrepreneurs to secure plant and machinery for the erection of new mills and for the maintenance of the existing ones in an efficient condition, so that they can increase the output of sugar. The concentration of sugar industry in Bihar and U. P. has resulted from fortuitous causes. Madras commands an internal market and her requirements are more than one lakh tons, while its production is less than half that quantity. On the other hand, Mysore produces about 30,000 tons of sugar when its consumption is nearly 8,000 tons. The two neighbour-provinces can help each other. Cultivation of sugar-cane is to be extended for another reason, namely, that it is one of the primary products to help the building-up of agro-industries and to offer chances to the people for their profitable employment.

How to improve our production and widen procurement of the principal food grains, and how to turn the necessity for control to advantage by improving the constitution of diets in the different parts of our country by securing the required supply of the productive foods? The Madras Government favour Monopoly Procurement system to get food grains from producers, voluntarily or by compulsion for supplying to the deficit areas, and to leave their purchases to the traders in surplus areas. A long-term agricultural rehabilitation policy must be linked with improved crop-production and dietary. Targets for local production may be laid down, higher research is to be organised for all crops, working stocks are to be built up, imports are to be made where necessary, surpluses are to be sent

to sister-provinces, and proper storage, and conservation of grain attended to in order to avoid an annual loss of 1½ million tons. Balancing production and distribution by provinces and States can be done with the help of the Central Government, while the Government itself can co-ordinate production with reference to the demands of the country. For improving the feeding of the people on scientific lines, close touch is to be kept up with nutritional advisers and basic plan branches, and propaganda made for protective foods. The adoption of an all-India scientific agricultural policy will result in due time in lessening unemployment, poverty and ignorance of the farmers. Control of diseases among cattle and crops, and control of pests are needed. It is desirable to start centres or depots for groups of villages wherein improved seed, fertilizers, modern implements etc. are to be kept and which will serve as mediums for advice, information and propaganda. Rural Campaign volunteer corps, if properly organised, will create a healthy atmosphere, will largely help to uplift the demoralised peasantry and educate them to grow more food; they will also be able to appeal to human consciousness of the well-to-do elements to favour their brethren. The war has given encouragement for the co-operative movement, with reference to food-problem on the production and distribution sides. Along with the task of consolidating and extending the scope of work of the existing societies, more societies are to be started, so that they will play a large part. Though rationing is to continue for some time, the close of the war will discourage the middlemen, retailers and consumers from pursuing their selfish policy. The Government itself may run grain shops in the needed places and encourage Commercial Corporations to function under control.

We must pray for the discovery which led to the production of the atomic bomb will be made to conduce to peace among nations instead of wreaking havoc upon the globe. It is reported that Canada is constructing a pilot plant in Ontario for the production of new radio-active atomic bomb materials which will be valuable in the study of chemical and biological processes and in medical application. The application of this source of energy to peaceful development of power for the benefit of mankind is expected to be immense. Again, radar is said to possess greater potentialities than the splitting of the atom. We do not know whither we go pushed on by science. Man yearns

for moral and spiritual nutrition, while attempting to secure material comforts. It is natural. Any system devised for his good cannot be an end, in itself, but should only be a means to an end. A change in our attitude to life which, if correctly translated, would result in charity towards all. This new approach to life should emerge for the well-being of the human race. The average man too is taking more intelligent interest in the shaping of his destiny. He seems to be determined to prevent gambling with the fate of his brethren. We must move forward steadily while thoughtfully looking back. Human nature in the mass changes slowly; but when it does, it moves irresistibly. Government should ensure social security and welfare of all by giving them a decent existence with adequate food, clothing, shelter, education etc. Much depends on the type of Government and the nature of the economic structure we have in view. We have to foresee a cleverly-diffused State-control and direction in production, equitable distribution of the national goods, organised fight against unsocial tendencies. We have to create conditions under which all our countrymen live in comfort. We have to utilise the peace of the present for the improvement of our economic status. Practising principles of economic and social justice by men in power, co-operation and help from the prosperous nations to the less-advanced for satisfying their needs and raising their standard of life, will create an atmosphere of good-will and contentment for which everyone hungers to-day.

POST-WAR CURRENCY SYSTEM IN INDIA

BY

H. C. MALKANI

Principal, H. R. College of Commerce, Hyderabad (Sind)

The World War II has come to an end. The end, has, in a sense, been all too sudden. The end of War has produced national and international problems more complex than War itself. The world is faced with the most critical period of the economic history as it crosses the threshold of a transitional period between war and peace. Peace hath its problems no less than War. The abrupt end of hostilities has brought to an equally abrupt conclusion the Lease-Lend arrangement between America and England. This will have its own repercussions on the economy of dependent countries like India.

In any consideration of the Post-War Currency system in India, the ideal to be kept in view is the stability of the price-level. One of the essential characteristics of sound money is that it should be comparatively stable in value. This is also the goal of a sound currency system. The money unit should measure as far as possible, an equal amount of goods and services. The question is at what level should the internal and external value of the rupee be stabilised in the Post-War period? The War has worked havoc with the Indian Currency system. The value of Indian currency has been adjusted not to the internal requirements of the country but with a view to the financing of war expenditure of the Allied Nations. Since August 1939, the note circulation has increased by more than Rs. 900 crores. The note circulation today is about Rs. 1132 crores as against Rs. 187 crores before the War. Thus it is more than six times the pre-war circulation. By flooding the country with paper currency, the Government of India found the rupee finance for defraying the expenditure required by His Majesty's Government. We, therefore, suffered from all the evils of inflation. Neither increased taxation nor borrowing, which Sir Jeremy Raisman, the former Finance Member, liked to describe as the "Government's sheet-anchor", nor the sale of bullion was sufficient

to mop up the vast purchasing power unleashed by the War. Its "carry-over" into peace is one of the more urgent problems facing the custodians of our public finance.

The figures of scheduled bank deposits reveal a similar story. In 1938-39, there were 55 scheduled banks with demand liabilities totalling Rs. 130 crores and time liabilities of about Rs. 108 crores, totalling roughly Rs. 238 crores. Today there are some 86 scheduled banks with demand liabilities of Rs. 629 crores and time liabilities of Rs. 239 crores making a total approximately of Rs. 866 crores. The figures are significant as they show the ratio between the liquid assets, represented by the demand liabilities and the long-term assets represented by the time liabilities. It will be noticed that the demand liabilities have increased by about Rs. 500 crores indicating that there is a possibility of an outflow of cash at short notice to the extent of that sum.

In India, as against the tremendous increase of note circulation, there has been no comparable increase in goods available. While this country has accumulated sterling balances to the extent of £ 1,066,000,000 these are not convertible either into dollars or immediately into capital goods. If the inflationary spiral is to be checked, more consumer goods must immediately be available. On a long-term basis, there must also be an adequate import of capital goods in order to facilitate the production of indigenous consumer articles. Some time will elapse before Indian industry is in a position to manufacture these goods in sufficient number for the internal market.

As soon as the effects of the artificial economic stimulus of war wear, deflation and the slump will set in, unless, war-time activities are replaced by long-term development schemes. It is a matter of common agreement among economists that deflation is inevitable unless it is prevented by positive policy. No doubt there is a large pent-up demand but this would be released not with the arrival of things in the market but after a substantial fall in prices. This pent-up demand would thus serve to cushion the fall in prices at the second stage of the depression. The first stage, however, is in the offing. The eight million men who have been doing auxiliary work for the armed forces are without their work and soon will be without their incomes. Men employed in war industries will now have much less work.

Our post-war currency system should steer clear of both the inflation and deflation rocks. It should aim at stabilisation. Stabilisation will mean revaluation of the rupee in terms of world currencies for the simple reason that such revaluation would give us the margins for rehabilitation of our economic position and its stabilisation in terms of the economy of the world as a whole.

The purpose of the international Monetary Fund is also "to promote international monetary co-operation, to facilitate the expansion and growth of international trade and to assist in the establishment of a multilateral system of payment and in the elimination of foreign exchange restrictions". According to the International Monetary Agreement, the par value of a member's currency shall be expressed in terms of gold and shall not be changed except with the approval of International Monetary Fund. The change shall not exceed 10 per cent.

The problem of choosing a right parity is a difficult one and specially in the case of a country like ours, whose currency policy is not entirely in its own hand. The continued expansion of the currency has weakened the rupee internally. The Reserve Bank has merely issued currency notes against sterling assets and commercial banks have acted as the medium for holding what surplus income the public chose to hold in the form of deposits. The level of costs and prices has risen in this country. The small man has been hit very hard. The present price-level from the point of view of a large majority of the people in this country is untenable. Steps must be taken to bring down the high level of prices. Price control and rationing of food and cloth have partially succeeded in checking further rise in prices. The higher costs and prices cannot but prejudice post-war exports while war profits and higher income of some people make the way clear for an inundation of imports.

There is general agreement that the rupee should be delinked from sterling and that it should be left to find its own moorings. According to the index numbers published by the Economic Adviser, the wholesale price-level has risen in India from 100 to 240. Over about the same period, the United Kingdom has recorded a rise from 103 to 163. On the basis of the purchasing power parity theory, the rupee sterling parity has fallen from its pre-war level

of 1sh., 6d. to 11.8 d. According to the statistics compiled by the Economic Adviser, the prices of agricultural commodities other than food have advanced in the ratio of 100:200. The prices of our chief exports record a much higher rise in the proportion of 100:240. On the other side, the index number for such industrial products as England now produces, has changed in the proportion of 106:165. Taking again the lower rise in the case of India, the rupee-sterling parity would approximate to about 11.6d. On the basis of a comparison between the rise in the cost of living in India and the United Kingdom, the rupee-sterling parity would be found in the neighbourhood of 8 ½d.

Thus the factors which weighed in the past in favour of a link with the sterling have ceased to have their old force. The Reserve Bank should be entrusted with the task of fixing the external value of the rupee in the light of conditions in the world at large and in the country itself. Our price-level should be stabilised to the greatest advantage of this country. If we examine conditions in the world outside, we notice, that during the War, note-circulation as a rule has increased more rapidly than commercial bank sight deposits and in nearly all countries, sight deposits more rapidly than time deposits. Industrial production has increased. The cost of living has risen, so have the retail prices of food-stuffs and other necessaries of life. The new purchasing power parities between different countries will thus have to be fixed in the light of adjustments of costs and prices in the countries concerned.

POST-WAR INDIAN MONETARY POLICY

BY

V. R. PILLAI, M.A., M.SC. (ECON.) LOND.

Travancore University

MONETARY POLICY AND THE PRICE LEVEL

The role of prices in the economic nexus is all-important. The price mechanism acts as the pivotal point on which the wheels of economic activity turn. But the days are past when the price system used to be regarded as the product of a free interplay of economic forces and as an automatic regulator of business activity. The increasing risks of business under a regime of unstable prices and the violent impacts of the alternations of booms and depressions which have characterised the course of economic development during the last century have led nations to regard a stable price level as a primary objective of national as well as international policy. The current of modern opinion, therefore, lends support to a policy of conscious and purposive regulations of the price levels in all countries.

The factors which influence the price level are many and complex, but by far the most important is the volume of purchasing power in a country relative to the volume of production. Even with a constant supply of money it is possible that both average and relative prices may vary, but it is certain that changes in the volume of purchasing power do affect prices. Money, therefore, exercises a potent and determining influence upon the price level and it cannot be brushed aside as "an insignificant thing in the economy which like many other kinds of machinery only exerts a distinct and independent influence of its own when it gets out of order"[1]. It is also equally difficult, if not impossible, to devise measures of practical policy to make

[1] J.S. Mill, *Principles of Political Economy*, Bk. III, Ch. 7.

it neutral so that the monetary influence can be eliminated from the determination of prices. The main function of money is to serve as a medium of exchange, but in modern times the task of monetary management has been not to ensure its ready exchangeability but to regulate its value. Thus the only intelligible meaning which can be given to the term "Monetary Policy" is that which relates it to the problems connected with "the objective exchange value of money"[2]; *i.e.* its power of acquiring a certain quantity of other economic goods in exchange. In the case of credit money especially, the regulation of its exchange value through an increase or decrease in quantity is vital.

The value of money being the reciprocal of the general level of prices, all measures which influence the exchange value of money are measures which affect prices and all factors which affect the price level also affect the value of money. But monetary policy has its own limitations. It can only be a camp-follower of economic policy and has to be related to the main objectives of that policy. Further, in the welter of forces which combine to make the price level what it is, the effects of an increase or decrease in the quantity of purchasing power or in the term of credit cannot be anticipated with any measure of accuracy; nor can they be measured with precision. But with all its limitations, monetary policy is a handy tool which can be used to good purpose in regulating economic activity.

PROBLEMS OF STABILISATION

The search for a stable economy has been the keynote of most of the monetary reform schemes during the present century. While the stabilisation of the value of money is common ground, there is wide divergence of opinion regarding the means to this end. The most popular view now-a-days is to maintain the value of money stable in terms of commodities; in other words, to keep the general level of prices constant. An alternative suggestion is the stabilisation of incomes, by which the prices of the factors of production should be kept constant and the prices of consumers' goods may be allowed to vary according to a rise or fall of costs. This, however, would be extremely difficult to work in practice, for it will have to be based on a general

[2]L.V. Mises, *The Theory of Money and Credit*, pp. 101 and 217-18.

index of wages, rents, interest, etc. and many of these items have a high degree of rigidity and are not easily susceptible to changes in monetary demand. A third proposal has the limited objective of maintaining the stability of the exchange value of the currency in relation to other currencies of gold. If all currency units had a stable value, then the exchange rate could be left to take care of itself. It is the divergent movements of price levels in different countries which necessitate a choice between stability of domestic prices and stability of the exchange. The gold standard aimed at the latter and left the internal price levels to adjust themselves to the rate of exchange through the equilibrating influence of gold movements. The objective underlying the current proposals for a managed currency is the stability of the internal price level.

It is, however, highly problematical whether monetary policy can successfully maintain a stable price level and how far such a policy, even if successful, will conduce to a stable economy. The price level is determined by a conjunction of monetary and non-monetary factors and the latter exerts an influence, which it is not always possible to anticipate correctly or counteract effectively. Moreover, even under a regime of stable prices relative prices may vary greatly and changes in the quantity of money which are intended to correct the disturbances in the general price level may themselves cause large movements in relative prices.[3] These movements are more important from the point of view of business incentive and productive activity than the general level of prices. In the case of India especially, the relative movements of industrial and agricultural prices are matters of prime importance for the future. It behoves monetary authorities, therefore, to study the effects of changes in currency as well as in the volume and terms of bank credit on the movement of relative prices with a view to correct maladjustments and redress the balance in the economy. But in the present state of monetary theory and technique, it would be a task beyond its scope and the objective of a stable price level may be accepted as the nearest approximation, if not to the ideal, at least to the practicable.

[3]F. A. Hayek, *Prices and Production*, p. 25.

THE INDIAN SITUATION

The abnormal increase in the volume of currency during the war is a factor to be reckoned with in determining the lines of future monetary policy. The note circulation has increased from Rs. 170 crores on the eve of the war to over Rs. 1135 crores by July 1945. Thanks to the abrupt end of the war in the East, India may soon be freed from the obligation to find Rupee finance for the Allied war expenditure in this country and we may expect that the ceiling may be reached at about Rs. 1200 crores. This colossal expansion of the currency has undoubtedly weakened the position of the rupee internally and may react on its external value also when the present exchange controls are removed. While currency has been subjected to unlimited expansion, the war has not helped to increase our productive capacity. With our capital equipment seriously impaired, and the health and vitality of the surviving population grossly undermined by starvation or under-nourishment, the volume of production may even fall below the pre-war level for some time to come. Certainly, the present Indian economy cannot support the huge edifice of currency which has been built up during the war period.

It is true that the full effects of the currency inflation have not been felt on the economy due to the operation of various war-time controls. But eventually these controls will have to be relaxed and if the volume of currency is maintained at the present level, it is bound to produce serious repercussions. The crude versions of the Quantity Theory would lead one to think that the currency will be a factor which will help to maintain the price level; on the other hand, the effect of the currency can only be to produce accumulative disequilibrium. It will help to produce boom conditions during the immediate postwar period, but, as the amount of real capital which can be tapped for industrial purposes is limited and as the amount of employment provided cannot maintain the present level of incomes, it will help to intensify the depression when it sets in. When the original stream of new money dries up and the initial tendency to dishoarding is checked by dwindling incomes, much of the money will gradually find its way into the hands of business men through the medium of the purchase of consumption goods or investment. As the depression sets in, this money, instead of being absorbed into

the income and industrial circulation, will find its way into the banks, where idle balances would accumulate. It is possible that under these circumstances those individuals or groups who possess a larger stock of money than they need may be induced to spend more on consumption goods especially of the luxury type, thereby stimulating production in those industries and increasing employment and the incomes of those engaged in them, But in so far as this money is spent on foreign goods, which is more probable, these beneficial effects will be felt in the foreign country, while the pressure on the exchange will be increased. The idle cash balances and the diminished demand for money would lead to a fall in interest rates to a depth necessary to stimulate investment and activity. Thus, so long as the level of prices and incomes has not adjusted itself to the increased volume of currency, the latter can only serve as a disequilibrating factor in the economy.

These considerations would suggest a policy of gradual contraction of the currency during the immediate postwar period with a view to check the boom and thus ease the transition to peace. It is, therefore, relevant to examine how a restrictive policy of this kind can be effected with the least disturbance to the economy. The ideal method would be to retrace our steps through the same channel through which the inflation in the currency was brought about. It was the necessity to find rupee substitutes for the sterling promises with which we were paid for the goods and services purchased in India which led to the accumulation of sterling balances to the extent of over Rs. 1,000 crores and a corresponding increase in the note issue. The liquidation of these sterling balances would by itself be a deflationary process and would enable the Reserve Bank to cancel equivalent amounts of rupee notes. It would also facilitate the import of the much needed capital equipments and increase the tempo of our industrial expansion. But there are ample grounds for assuming that such a course would be impossible in the near future and that the liquidation of these balances would be spread out over a long period of time. An alternative method would be for the Government to raise loans and utilise the proceeds to pay the Reserve Bank and get sterling securities of corresponding value transferred to Government account. The interest charge on these loans need not be a burden to the Government, for they can be met from the interest on sterling securities. But it is highly doubtful whether the Govern-

ment already under the pressing necessity for further loans for financing a public works policy to relieve unemployment and for returning the refundable deposits and the capital investments in Government loans by companies during war time, will be in a position to borrow from the market for this purpose. A third method would be for the Reserve Bank to adopt the traditional device of open market operations and withdraw the notes by selling securities; but the position of the Bank is peculiar in that its holding of Rupee securities forms only a small fraction of its total liabilities.

THE PROS AND CONS OF DEFLATION

Deflation is a bitter pill especially to the business community which always revels in high prices and exerts its pressure to maintain them. It is generally regarded by economists also as worse in its effects than inflation itself, and therefore undesirable.[4] The arguments against such a policy form a formidable phalanx. It is contended that a general fear of falling prices may inhibit the productive process altogether and lead to widespread unemployment, that it would make the burden of the public debt oppressive and be injurious to the debtor class as a whole, and that it will only benefit rentiers at the expense of the rest of the community. It cannot be disputed that there is much force in these contentions when applied to a deliberate policy of deflation on a large scale to restore the monetary unit to its pre-war value, as was attempted in some European countries during the years immediately following the last war. But a moderate deflation need not shake public confidence or dislocate business activity, especially if it is accompanied by a policy of wage controls so that prices and costs are not allowed to fall out of-equilibrium. It may not also be unjust to the debtor classes who had contracted debts with the foreknowledge of possible fluctuations in the value of money. The pressure of taxations to meet the burden of public debt can be adjusted in such a way as to fall mainly on those classes who have benefited by the inflation. From the point of view of social justice also, equity would demand that the rentiers and the salaried ranks who had suffered a severe loss of real income during

[4] J. M. Keynes, *A Tract on Monetary Reform*, p. 140 and p. 143.

the inflation should be given some relief by way of a lower cost of living.

One line of argument in favour of a deflationary policy is based on competitive advantage. It has been suggested that "we should *maintain the general price level* in the country at a reasonably low level for effective international trade" because we need such a level "to meet foreign competition in the interests of our exports and also to meet such competition in our own local market"[5]. The post-war period will certainly be one of intense commercial competition and Indian products will not be able to hold their own, unless their prices are competitive. It is also true that the price levels in the U. S. A. and the United Kingdom have not risen to anywhere near the Indian figure. But it does not necessarily follow from this that we should reduce our general price level. The fallacy in the argument arises from an application of the classical analysis of international exchange without taking into account its underlying assumption of a fixed exchange. Even if rupee prices were to rise four times the pre-war level while foreign prices are only doubled, it need not give a competitive advantage to the foreign countries when trade is opened, if the rate of exchange falls correspondingly and the value of the rupee settles at half its original value in terms of other currencies. Thus the need for lowering the general price level would arise only if we are opposed to a devaluation of the rupee which will be the necessary concomitant of a relatively high price level.

But the case for a moderate deflation in India stands on altogether different grounds. The Indian situation is one in which the price and income structure has not adjusted itself to the increased quantity of money. The wide margin by which the rise in wholesale prices exceeds the rise in the cost of living index also suggests that there is room for a scaling down of prices. It is possible that when the full effects of the expanded currency work themselves out, prices may be pushed up still further ; and it may lead, as we have seen earlier, to cyclical fluctuations and great instability in the economy. The problem in India, therefore, does not reduce itself into a simple choice

[5] C. N. Vakil and J. J. Anjaria, *The Future of the Rupee*, p. 22 (italics, mine).

between deflation and devaluation; it is more a question of the measure of deflation that would be expedient and the level at which prices should be stabilised consistent with the objective of full employment.

THE RUPEE RATIO

The future exchange value of the rupee is a matter of vital importance, but one on which it is too early to hazard an opinion. It will depend, on the one hand, upon the level at which Indian prices are stabilised, and on the other, the movement of the international price level. But there are certain considerations which are fundamental in determining the lines of future policy.

Indian monetary policy in the past has been predominantly influenced by the objective of exchange stability. This has often proved detrimental to the interests of the internal economy. The main justification for such a policy has been the necessity to attract foreign capital and the facility for meeting the home charges of the Government of India. These considerations do not hold good for the post-war period because of India's creditor position and the development of a capital market within the country. Further, the needs of planned economic development would dictate a policy of maintaining the stability of the price level rather than the stability of the exchange. It is, therefore, important that we should avoid the mistake committed in the Twenties of pre-determining the rate of exchange and allowing prices to adjust themselves to it.[6] It will be a case of putting the cart before the horse. On the other hand, the domestic price level should be the governing consideration in the determination of policy.

India is one of the countries which have subscribed to the principle of the International Monetary Fund. The Fund aims at securing reasonable stability in the exchange rates without the rigidity of the gold standard. While the value of all currencies will be fixed in terms of gold, the gold parity will be alterable when circumstances warrant a change. This elastic parity, however, is very

[6]Report of the Royal Commission on Indian Currency and Finance, 1926, Vol. I, Minute of Dissent by Sir Purushotamdas Thakurdas—p. 144.

different from a system of free exchanges where automatic changes in the exchange rate would tend to correct any disequilibrium in the balance of payments. It may give rise to great disparity between the internal value of a currency and its external value especially during short periods before a corrective change is effected, and the reluctance to make frequent changes may allow the disequilibrium to continue. An over-valuation of the rupee will seriously hinder the competitive position of our industries and prove disastrous to their future development. The experience of Great Britain in restoring the pre-war gold value of the pound in 1925, when it had not really reached that level, and the results of the 1sh. 6d. ratio in India during the inter-war period, are too fresh to be forgotten. It, therefore, requires great vigilance on the part of our monetary authorities to see that the exchange rate does not over-value the rupee.

PLANNING AND CURRENCY POLICY

A reorientation of our currency policy should form an integral part of any plan of economic reconstruction. Indian monetary policy in the past has been characterised by three important features : the subordination to Whitehall, the veneration of exchange stability and a currency circulation quite unrelated to the needs of the internal economy. The establishment of the Reserve Bank of India as the currency authority, apparently a great step forward towards monetary autonomy, did not change by one iota the fundamentals of our currency policy. The subordination to Whitehall reappeared by the backdoor through the sterling link and the predominance of sterling in our currency reserves. The Bank's powers were severely circumscribed.. Its powers of expanding the currency to meet domestic needs are limited by the necessity to get sterling cover for the note issue. At the same time, it became an impotent tool in the hands of the British Government to bring about an inflation of colossal dimensions. Its small holding of rupee securities makes it innocuous in the open market. Its function relating to the exchange rate is only that of a watch-dog. It must hold it sacrosanct and should not even take an initiative in the matter.[7] A more perni-

[7] "The ratio was fixed by the central Legislature in the Reserve Bank of India Act and it was that body alone which could alter it. The

cious system from the Indian standpoint can hardly be imagined. It is, therefore, idle to talk of planning and reconstruction unless the *ancien regime* in monetary policy goes, lock, stock and barrel.

The shape of our monetary system in the post-war period has to be viewed in the context of international monetary reform. This is particularly important in view of our dependence on the outside world for the sinews of reconstruction. We may tentatively assume that a revaluation of gold with elastic parties, as contemplated in the I. M. F. scheme, will be the basis of future currency organisation. It should serve as a satisfactory basis for reordering our currency system, if it would ensure the freedom and the flexibility necessary to work out our economic salvation. The scheme has a special appeal to us in India in so far as it would enable the rupee to be extricated from the link to sterling which has done so much havoc on our economy in the past and can do no good in the future.

The whole monetary mechanism requires thorough overhauling. The Reserve Bank must be armed with sufficient powers to act as the custodian of our currency and credit structure. It should be in a position to regulate both the internal and the external value of the rupee in the national interests. The statutory minimum of gold in the currency reserves will have to be considerably enhanced in view of the enormous increase in the currency. It would be a sound policy for the Reserve Bank to increase its holdings of gold much above the prescribed minimum because of the impregnable position of gold, even in the new order, as a means of international payments. Part of the sterling assets may be converted with advantage into gold, as and when circumstances permit.

It has been suggested[8] that "the anomalous partnership between gold and sterling should be ended and a new partnership should be created between gold and rupee secu-

initiative must, of course, be taken by the Government itself" : Finance Member's speech in the Assembly (EASTERN ECONOMIST, March 23, 1945).

[8]B. N. Bhojwani, "Postwar Implications of India's Sterling Credits" (I. J. E. July 1944, p. 7.)

rities to form a minimum proportion of the note issue". In other words, it means that sterling should be relegated to the B group of assets of the Issue Department of the Reserve Bank and rupee securities should be promoted to the A Group. As an ideal, it is praiseworthy, but it is doubtful whether such a step would be opportune at the present juncture. In the first place, a large increase in the gold holdings may not be possible in the immediate future and the gap in the statutory minimum proportion will have to be filled entirely by rupee securities. Secondly, considering the large resources of sterling that we now possess and the prospect that sterling may after all recover from its temporary setback and have a better international standing than rupee securities, there seems to be no valid reason for making such a radical change. It is, however, necessary that sterling should be subjected to a maximum limit far below the present level of holdings and that other safety valves should be provided to ensure the elasticity of the currency. The old partnership can be strengthened by making gold the major partner, and its rigidity broken by admitting rupee securities also into it subject to a maximum proportion.

The war-time measure giving rupee notes the status of "Coin" for the purposes of reserve has to be repealed. The question whether rupee securities should again be subjected to a maximum limit is a matter which hinges on the elasticity of the future currency system and is bound to be a subject of controversy. Those who think of planning with 'created money' would certainly oppose it. But in the interests of the stability of the currency system and the status of the rupee in foreign money markets, it is incumbent that a limit to the rupee securities should be fixed at a level which would give sufficient scope for expansion and at the same time avoid the danger of inflation.

CONCLUSION

The Indian situation bristles with difficulties. The future of our economy and the pace of its development will hinge greatly on the manner in which we tackle the problems of the transition. Our monetary policy during the immediate post-war period should aim at steadying the effects of cyclical fluctuations and breathing the element of stability into the economy. It should be attuned to the

main objectives of our economic policy and help to maintain the level of incomes and output at a high level. Our post-war currency system should be shaped in the light of international monetary reform. But the present system leaves much to be desired. It calls for a radical change not so much in the mechanism of control as in its *modus operandi.* The old order of things must give place to a new one before we can go ahead with our plans of economic development, for a sound monetary system is a *sine qua non* of all successful planning.

STABILISATION OF PRICES—AN ASPECT OF THE POST-WAR CURRENCY SYSTEM IN INDIA

BY

K. N. BHATTACHARYA, M.A.

Professor of Economics, Santiniketan College, Visva-Bharati

[The nature and the problem of the post-war currency system in India should be visualised in the light of the position of India's currency during the war period.

It is too well-known that Indian currency during the war period was subjected to a heavy strain, and inflation, though least desirable from the economic point of view, was, however, freely resorted to for meeting the requirement of the war-finance.

Now with the end of the war India is faced with a currency which has appreciably fallen in value. Prices have sharply risen, the cost of living has greatly increased, and a new structure of cost and income has been brought into existence.

For the purpose of monetary reconstruction the most important line of action would be the restoration of stability in the value of the currency in India. Stabilisation of prices should be the clear-cut objective of our monetary reform. Having determined the goal, the monetary policy should be directed in such a way that it helps us to reach the desired end as quickly as possible.

In our attempt to stabilise prices, the relevant question would be :— At what level should prices be stabilised? The pre-war level is unthinkable as it would involve deflation. The present level is also too high as it has not adjusted itself to the existing structure of cost and income. Besides the present level of prices cannot be maintained without lowering the rupee ratio, a course of action which the Government is very unlikely to embark upon.

The level at which prices can be stabilised is to be determined by our ability to make the necessary investment and outlay. Pent-up demand for consumption goods, and reconstruction plans on private account cannot be expected to fill up the gap caused by the cessation of Government expenditure for defence purpose. The Government must come forward with plans and policies and be prepared to maintain a level of investment which would generate sufficient income and prevent the onset of depression.

Prices should first be stabilised in industries, and agricultural and other prices should be co-related to industrial prices. In fact, industrial price stability is a pre-condition of agricultural price stability. To achieve a stable industrial price-level several important steps should be taken. Excess profit tax should be abolished, and so also capital issue control removed. This would enable the industries to improve and extend production and reduce costs. Besides, at present the cost of living index is too high.

The cost of living index should gradually be lowered by bringing down food and other prices. With the fall in the cost of living of industrial workers, industrial cost will fall still further If prices fall along with costs, but not as fast as the cost itself, then this will not bring in any evil of deflation. Prices can be eventually stabilised when income and cost appear to have established their parities.]

I

The nature and the problem of the post-war currency system in India should be visualised in the light of the position of India's currency during the war period.

It is too well-known that Indian Currency during the war period was subjected to a heavy strain, and inflation, though least desirable from the economic point of view was, however, freely resorted to for meeting the requirements of the war-finance.

The end of the war has put India to a new but difficult position. She is faced with a currency which has appreciably fallen in value. There has been an all-round rise in prices, and the cost of living has greatly increased. From the latest figures available it appears that as compared to pre-war prices, prices of agricultural commodities stand at present 15% higher, of manufactured good 140% higher, and the general price index stands 137% higher. On the whole, the war, and the consequent inflation of the currency, has brought into existence in India a new set of prices, and a new structure of cost and income. If stability in value is an important quality of a good money, then Indian Currency with its depreciated purchasing power seems at present to be lacking in that singular quality.

For the purpose of monetary reconstruction, the most important line of action would be the restoration of stability in the value of the currency in India. In other words, stabilisation of prices should be the clear-cut objective of our monetary reform. Having determined the goal, the monetary policy should be directed in such a way that it helps us to reach the desired end as quickly as possible.

II

Having defined stabilisation of prices as our monetary objective, it does not follow that such a goal is, however, easy to attain. The difficulties are numerous. There is at present no one ruling price level in India. Different provinces have got different costs of living. Index numbers

of prices of Calcutta are substantially higher than the Economic Adviser's index numbers of wholesale prices. The divergence between the control price and the black-market price also causes additional confusion. What is, therefore, required is to work out a ruling price-level which would be uniform for the whole of India.

Secondly, comes the question of parity between agricultural prices and industrial prices. Industrial prices have, of late, shown wide fluctuations. According to the figures supplied by the Economic Adviser, prices of manufactured goods have dropped from 257 in the last January to 239 in last May. Such chaotic and unplanned fall of industrial prices may lead to undesirable results. Industrial prices are to be stabilised in relation to the parities of agricultural price, cost of living, and company earnings.

It thus follows that a stable and uniform price-level, and a parity between the Industrial and other prices are the twofold objectives of price stabilisation.

III

It is unfortunate that recent trends of economic thinking in our country have not shown any disposition to give serious thought to this all-important question of future level of prices in India. While there has been a lot of talk on planning the various sectors of economic life, there has not been much fruitful discussion on planned money and planned prices. The recent revelation of the Government mind on this point is still more unfortunate. The following lines taken from an important commercial weekly (THE EASTERN ECONOMIST, August 31, 1945) will speak for themselves. "The Government of India, it is said, will begin to consider the removal of war-time taxes only when factors such as the general price-level or the rate of dividends show a tendency to drop back to normality. It is difficult to see, after the violent changes of the last six years in prices and incomes, what normality is; apparently Government seem to think that the pre-war situation represents normality and would wait on events to get back to it. If that were so, that would only mean disaster." To think of the future level of prices, cost and income in terms of the pre-war level is not only an over-simplification, but also a confusion, of the main issue. It may almost be categorically stated that going back to pre-war parity

of prices is almost an economic absurdity. This would necessitate deflation on a scale which would produce socially injurious effects of an unthinkable magnitude.

But on the other hand, the existing level of prices, is also too high, and there are reasons to believe that it is not appropriate to the present structure of cost and income. If not for anything else, attempts to stabilise prices at the existing level would be futile because of the present high exchange value of the rupee. A devaluation of the rupee, if not a free and autonomous rupee, would be an inevitable condition for maintaining the existing level of high prices. But such a course is neither feasible nor really desirable. It is not feasible, because the Government is unlikely to embark on a course of devaluing the rupee. And any price level, calculated on the basis of a such improbable happening, is likely to give an unrealistic picture of the future. Devaluation of the rupee is also not desirable because a lower rupee, however, advantageous from the point of view of high prices and export benefits, will bring about a fall in the level of imports. But on the other hand a high exchange value of the rupee, resulting in a high level of imports, may confer benefits the possibilities of which can not be altogether ignored.

IV

Prices should be stabilised at the level which it will be both possible and desirable to maintain. The level which it will be possible to maintain is to be determined by our ability to make the necessary outlay. Factors which will determine our ability to make the necessary outlay can briefly be listed as follows:—(1) pent-up demand for consumption goods, (2) small savings likely to be used for consumption goods, (3) postponed demand for housing and building materials, (4) postponed demand for reconstruction including replacement demands for plant and machinery, (5) reconstruction plans of provincial governments, (6) post-war funds of the Central Government to be invested for reconstruction plans.

It is idle to expect that small savings and pent-up demand for consumption goods and replacement goods can necessarily fill up the gap which will be caused by the cessation of Government expenditure on war account. An autonomous outlay of Rs. 300 crores per annum for 2 or 3 years is what can at best be expected. If the defence expendi-

ture of the Government continues at the rate of 200 crores per annum in the post-war years, then an additional outlay of Rs. 300 crores is required to maintain the present buoyancy of prices. The Government of India have not yet made clear their post-war policy and plans. But considering the shortage and backwardness of industrial production in India, it should not prove difficult for the Government to make plan for the desired level of outlay and investments. The Government is also known to have some road and re-settlement programme. Construction of new railway lines and extension of irrigation facilities should also provide scope for maintaining the planned rate of investment.

Planned investment would maintain the level of income which in its own turn would maintain prices. A fall of income, and a consequent collapse of prices would spell disaster. It has been pointed out before that from the Economic Adviser's index number it appears that industrial prices have during the last few months been showing a downward trend. Unless this fall in prices is orderly planned and co-ordinated to the general structure of cost and income, it will bring about a further fall of prices, and eventually induce a fall of agricultural prices and income.

Industrial price is the centre around which the whole price structure is to be built up. It is the stability of industrial prices which will give stability to agricultural prices. To try the other way round of fixing the agricultural prices without taking into account the position of industrial prices is bound to end in failures. To achieve the industrial price stability three important steps should be taken. Firstly, the excess profit tax should be removed as early as possible. The Government hint that the taxes would be removed when normality is restored is ominous. E. P. T. should be removed not because prices and company dividends have fallen low, but that it should be removed because prices and production should not fall too low. In this, as in many other matters, the Government thinking is guilty of putting the cart before the horse.

Secondly, the capital issue control has outlived its importance and is at present acting as a brake on industrial expansion. It is through industrial expansion and improvements that production can be increased and cost reduced. Besides, capital issue control was justified as an

anti-inflationary measure, and now that deflation stares us in the face such control measures should not exist one day too long.

Thirdly, industrial cost can be gradually reduced by bringing it in harmony with other costs and prices. At present the cost of living index is too high. A high cost of living for industrial workers would necessarily mean a high cost for industrial products. A reduction in industrial cost can, therefore, be effected only by an orderly reduction in cost of living, which, again, in turn can be brought about by the reduction in food and other agricultural prices.

To sum up, the monetary policy should be so directed as to maintain prices, but not to prevent the reduction of costs. To maintain prices, the level of investment should be kept as high as possible, but to reduce industrial costs facilities should be given to industries to make improvements and extend production. Prices should come down only when industrial costs fall,—but the prices should not fall as fast as the cost. This would give the inflationary stimulus for maintaining production and employment. Further, it is with the industrial price, that other prices should be linked up. This can be done by establishing the parity between the industrial price, cost of living, and food prices.

THE FUTURE OF THE RUPEE

BY

N. V. SOVANI

Gokhale Institute of Politics and Economics, Poona

[Two basic problems regarding the future of the Rupee are discussed in this paper, viz. the standard and the parity, under the assumption that India will be a member of the International Monetary Fund.

Since the Fund is the new monetary standard the problem of the Rupee belonging to any other standard does not arise. The suggestion that the Rupee should continue to belong to the Sterling Exchange Standard, as at present, is incompatible with the Fund arrangements. There are moreover no grounds to show that such a course will be beneficial to India. Because of the large sterling balances, however, the Rupee will have to operate largely through the sterling in the postwar period.

The initial parity for the Rupee that shall be declared to the Fund will most probably be the gold equivalent of the present one *i.e.* 18 d. Whether the Rupee will be overvalued at this parity cannot be said. The Fund provides for certain unilateral changes in the parities and, further, adjustments in parities for correcting a fundamental disequilibrium. In the postwar period a very fine and exact adjustment of parities will not be necessary because of the diminishing importance of exact parity determinations and small point differentiations. The exchange rates will become progressively insignificant as instruments of economic policy.]

Two basic facts will very largely determine the future of the Rupee; namely, the monetary standard to which it will belong and the new parity at which it will be stabilized. I shall discuss both these in the above order. The discussion will proceed under the assumption that the International Monetary Fund[1] will be an actuality in the post-war period.

The problem of the standard, once the coming into existence of the Fund is assumed, becomes almost pointless. Any monetary standard, metallic or exchange, means a legal obligation on the monetary authority to convert at a fixed rate and without limit its own currency into the

[1] Referred to hereinafter as the Fund.

metal or the other currency in terms of which the monetary standard has been defined, and *vice versa*. Under the Fund arrangements the par value of currencies is to be fixed in terms of gold[2] and the multilateral convertibility of any member currency at these fixed rates for meeting deficits on current international account, is assured within certain limits. The limitations so imposed and the other corrective measures proposed under the scheme are intended to maintain, almost permanently, this multilateral convertibility of currencies at fixed or changed exchange rates by keeping the balance of trade of these economies well within those limits. Thus, the membership of the Fund will confer on India all the benefits that flow from the adherence to an international currency standard without some of its disadvantages.[3]

The suggestion that the Rupee should continue to belong to the sterling exchange standard, as at present, is, however, being canvassed in some responsible circles.[4] Before going into the merits or demerits of such a procedure it would be proper to first settle the question "whether an international sterling standard as embodied in the sterling block is compatible with the Fund arrangements?"

The sterling group is distinguished by two main features; firstly, that the currencies of countries in it are, *de jure* or *de facto*, linked to the pound sterling and secondly, the Central Banks of these countries keep all or most of their foreign exchange resources in the form of sterling balances in London. The second perhaps is the logical outcome of the first as the Central Banks would naturally prefer to keep their assets in terms of a unit which has a fixed value in terms of its own currency. Also as a natural consequence most of their business on international account is cleared by means of the bill on London *i.e.*, through London. Can a sterling group of the sort remain in existence and function when the Fund comes into being?

The second feature of the sterling area described above does not appear to be in conflict with the purposes and the

[2]Final Act, Article IV, Section 1.

[3]E. A. Goldenweiser, "New Monetary Standard," Proceedings of the Academy of Political Science, Columbia University, May 1945.

[4]*Indian Currency* by Sir Theodore Gregory, INDIAN INSTITUTE OF INTERNATIONAL AFFAIRS, New Delhi, September 1944, p. 13.

working or the Fund. If it is remembered that the resources of the Fund are to be used only in the last resort such arrangements between countries cannot be objected to. During this war many countries have piled up sterling balances and these will have to be liquidated over a fairly long period, *i.e.*, such countries will have largely to deal through London. There can be, and is, no objection to such a procedure under the Fund.

For examining whether the first and the most important feature of the sterling block is or is not compatible with the Fund it is necessary to detail further some of the main implications of the sterling or any currency link. When a currency is linked, *de jure* or *de facto*, with any other currency, say the sterling, its exchange value in non-sterling currencies is determined mainly by the exchange value of sterling in those currencies. The linked currency's exchange rate on non-sterling currencies is thus determined *via* the sterling. In normal times these rates will very largely conform to the rates that would prevail if there had been no link and no sterling block. In so far as this goes this is not in conflict with the Fund arrangements. But this will not be so in times of stress. When a particular sterling area country is subjected to economic strain the home country of the sterling (U. K.) may not develop it. In this case to correct a fundamental disequilibrium that country can change the exchange rate of its currency, only by changing the par value of the sterling in the case of a *de jure* link and will have to change the exchange rate of its currency in terms of the sterling and *via* the sterling with regard to non-sterling currencies, in the case of a *de facto* link. In times of a general stress, like an international depression, for example, all the countries will not be affected in a uniform manner. The exchange rate in each country will have to adjust itself to the conditions of its own internal and external economy. The countries of the sterling block who have their currencies linked *de jure* with the sterling cannot change their exchange rates to suit the stresses and strains of their own economies. They will be only changed in so far as the sterling changes in regard to non-sterling currencies. In the case of *de facto* linking the countries would have first to change the par value of their currencies in terms of sterling and then would share also the changes that might occur in the sterling itself.

It will be obvious that the changes in par values as necessary consequences of the link with sterling are clearly incompatible and conflicting with the Fund arrangements. For under the latter the par values of currencies are to be changed, after a certain initial latitude, only for correcting a fundamental disequilibrium.[5] The term 'fundamental equilibrium' is in this connexion used with reference to a single country, as is underlined by Section 9, Article IV. A country's currency thus cannot share a change in the par value of the currency to which it is linked, unless justified by its own economic conditions.[6] A possible exception to this is in the case of currencies of the territories on whose behalf the metropolitan country is entitled to ratify the monetary agreement under Article XX, Section 2(g). The U. K. has not undertaken to sign the Monetary Agreement under Article XX, Section 2(g), for the Dominions and India. They are to sign the agreement as independent members. In their case, therefore, such a possibility is ruled out. Further, any *inter se* change of par values between sterling and currencies linked to it *de facto* is also non-permissible under the Fund. If there is a change in the par value of a certain currency it shall be in relation to all other currencies and not in relation to any particular currency. That would be a multiple currency device and as such against the purposes of the Fund.

The existence of the sterling block is thus incompatible with the Fund. The provisions under Article XIV allow a certain latitude to members of the Fund during the transitional period. They will be permitted to adopt and maintain restrictions on payments and transfers for current international transactions during that period. If rightly interpreted even these concessions do not admit of the continuance of the sterling block. The question of the Rupee belonging to the sterling standard is thus rendered pointless.

Nevertheless it would be proper to examine the grounds on which the continuance of the Rupee-sterling link is being advocated. In the pre-war days three reasons

[5]Section V (*a*), Article II.

[6]How exchange rates diverge and changes under conditions of a link with another currency might be illustrated by a reference to the table of rates of exchanges of sterling area countries on p. 22, of the Tenth Report of the Bank of International Settlements, 1939-40.

were generally given for keeping the Rupee linked to the sterling. Firstly, it was argued, that in the chaotic and unstable economic conditions of the thirties, with international trade and exchanges disrupted, sterling was a comparatively stable currency and it was also, next to gold, the most liquid asset for international dealings. The link with the sterling saved the Rupee the losses it was claimed that would have resulted from unstable economic conditions. Secondly, the Government of India had to meet every year sterling commitments like home charges, interest on sterling debt, etc., and it was, therefore, necessary that the Rupee should be linked to the sterling at a fixed parity so that the burden of these payments should not often fluctuate and make budget estimates impossible. Thirdly, a very large part of India's trade was with the U. K. and the British Empire countries and as such she had largely to deal with through sterling rather than with or through any other currency.

How far are these arguments valid with regard to post-war India? Regarding the first argument it may be pointed out that there is no warrant for expecting chaotic and unstable economic conditions during the transitional or the later post-war period, in view of the concerted steps that are being taken by the United Nations to avoid them. Granting, however, that such conditions develop there is no reason for expecting that the sterling will be a more stable currency than the Rupee itself. The position of the sterling as a debtor nation's currency will be considerably weaker than it was in the pre-war days. A link with the sterling in such circumtances will be of little help to India. The second argument has also lost all its force. During the war India has extinguished all her sterling debts and has accumulated large sterling balances. Many of India's sterling commitments have been permanently squared and whatever commitments remain can be easily met out of these balances.[7] Thirdly, the needs of India's foreign trade also do not indicate any greater advantage accrewing to India by a link with the sterling. It is not possible to gauge the basic trends of the direction of India's foreign trade from the trade statistics of the

[7]This analysis will have to be considerably modified if in the post-war period India decides to borrow capital from foreign countries, on a large scale. At the time of writing, however, no definite policy in that regard has been evolved and hence it is not discussed here.

period immediately preceding this war, as is sought to be done by some.[8] It must be remembered that during that period the Ottawa Agreement was in force and it aimed at diverting India's trade into Empire and the U. K. channels. During this period India's exports to the U. K. alone increased by 40 per cent and those to the British Empire by 32 per cent and there is no doubt that the Ottawa Agreement was for a large part responsible for this. The more significant fact, however, is that during the same period, in spite of the Ottawa Agreement, India's dependence on the British Empire as a source of imports lessened considerably and that on the U. K alone even more markedly. If anything this indicates that the basic trend of India's trade is away from the Empire and the U. K. Thus in regard to post-war India there is no case for a Rupee-sterling link.

There is, however, one more important consideration that has a bearing on this issue. Almost the whole of the credits due to India on international account are in sterling. In consequence her potential strength and capacity for operations in the exchange market in post-war years will, very largely, depend upon their availability. It is, inevitable that in the post-war period, India's foreign exchange operations will have to be largely articulated through the sterling. As such the strength and the maintenance of the stability of the Rupee-sterling rate will be one of the main objectives of India's exchange policy during the post-war period. But this rather indicates the main consideration in the definition of a foreign trade policy and does not amount to a *de jure* or a *de facto* link with the sterling.

To summarise, the problem of choosing a standard for the Rupee becomes pointless under the Fund arrangements. Nor does India stand to gain substantially by a link with the sterling in the post-war period. Under the aegis of the Fund the Rupee can function as an autonomous currency. Because of the sterling balances the Rupee will have largely to operate through the sterling. The problem of the parity of the Rupee is the next to be considered.

The sterling-Rupee relations will also dominate the determination of the new parity of the Rupee; for India's

[8] *Memorandum on Indian Trade Policy in the Post-War Period* by Sir Theodore Gregory, OFFICE OF THE ECONOMIC ADVISER TO THE GOVERNMENT OF INDIA, 1944, p. 8.

exchange policy will have to be guided as pointed out earlier, with a view to facilitating the liquidation of sterling balances. But there is a debtor side to this problem. The manner and method of liquidation of these balances will be subject to a bilateral agreement between India and the U. K. A large part of these balances shall have to be liquidated by the import of British goods. Any depreciation of the present parity will increase the difficulties in the way of such imports and thus complicate or lengthen the process of liquidation. The U. K. will be, therefore, justified in demanding some sort of an assurance with regard to the new parity. As India is also interested in a speedy liquidation of the sterling balances and not in complicating or lengthening the process she cannot in reason deny such assurances.

But under the Fund there cannot be any bilateral agreement between India and the U. K. regarding the parity of the Rupee. The provisions of the Fund in this connection must be elaborately reviewed for a correct appraisal of the situation. Under the Fund arrangements the new par value of the Rupee will be "based on the rates of exchanges prevailing on the sixtieth day before the entry into force" of the Final Act (Article XX, Section 4). Thereafter, except for an initial change of 10 per cent that can be unilaterally made, any further changes in this parity will have to be only for correcting a fundamental disequilibrium. In that case only will they be sanctioned by the Fund.[9] Under these provisions, therefore, once the initial parity is declared to the Fund any changes, excepting the first 10 per cent, will be a matter for the Fund to decide.

There is no possibility of a change in the present parity of the Rupee, in the immediate future and it is likely, therefore, that the rate fixed initially by the Fund will be the gold equivalent of the present rate *i.e.*, 18d. at the time of the establishment of the Fund. Will it be the most appropriate parity for the Rupee ?

Because of the wartime inflation in India the present Rupee-sterling exchange rate appears distinctly overvalued. This might be illustrated by a reference to the familiar purchasing power parities, though they would give only a

[9] Article V, Section 5 (i).

partial measure of this overvaluation. The index numbers of wholesale prices in the U.K. and India stood at *170·5*, and *249·2* respectively in *December, 1944*. The exchange gap was thus of the magnitude of *80 per cent* roughly. If this gap is not made up after the war and the normal trade channels begin to flow again it will exert a strong deflationary pressure on prices in India. If prices in other countries, and particularly in the U. K. rise considerably after the war, this gap will be made up without any deflationary pressure on the Indian economy. It is, however, futile to build upon the possibility of such a development; for the trend of economic policy in most of the leading countries of the world does not warrant any such expectation. There is, however, every likelihood that the Indian price-levels will sharply go down after the cessation of hostilities[10], and this will make good the exchange gap to a very large degree. It is not possible to gauge the exact degree to which it will be so made up and, therefore, the extent to which the Rupee will still remain over or under valued. With this uncertain prospect, it is surely disadvantageous to India, to have to declare the par value of the Rupee at an early date. A wrong parity, which can be changed with difficulty under the Fund, would hold out a rather gloomy prospect for the Indian economy in the post-war world, were it not for other compensating circumstances. These latter can be described under the caption 'The diminishing importance of exact parity determinations and of small point differentiations in the post-war period.'

The exchange rate as an instrument of economic policy will diminish in importance under the fund. In the inter-war period exchange rates were used in this manner on a considerable scale. The principal forms of it were the depreciation of exchange rates, irrespective of whether they were in equilibrium, and multiple currency practices. Exchange depreciation was used for stimulating domestic employment or for preventing the importation of deflation from abroad or for insulating the economy from external changes, multiple currency practices were very ruthlessly used by Germany. By means of clearing agreements with the countries in South-Eastern Europe, Germany caused to be built up large uncleared reichmark balances in their favour and then forced them to liquidate these by buying

[10] Cf. the present writer's "*Transition from War to Peace Economy in India*," INDIAN JOURNAL OF ECONOMICS, January, 1945.

German exports. Germany's exchange rates with individual countries were fixed by bilateral negotiation and consequently according to the bargaining strength of each country. These rates, therefore, never formed an arithmetically consistent network. Under the Fund such practices will not be tolerated. One of the purposes of the Fund is "To promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation." [11] To achieve this the Fund has been empowered to restrict changes in par values of currencies, as noted earlier. Thus under the Fund the freedom to manipulate exchange rates unilaterally is very considerably restricted. They will thus become almost unusable as instruments of economic control.

There are some considerations, with special reference to post-war India, which also point to the same conclusion. During the war India has extinguished most of her foreign debts and has run up a considerable credit balance. The preoccupation with the exchange rate, that has dominated Indian currency policy so far, need not remain any longer. Further, India will be entering into an era of large-scale economic planning after the war. In such large-scale planning there would have to be a considerable degree of control over production, distribution and foreign trade. This will involve government trading on a large scale, and the control of exports and imports. When the Government of India actively plans, controls and develops economic activity on a large scale—if it does not do this it will not be planning at all—the significance of the exchange rate for the Indian economy as an instrument of economic control will be very much less. The same is also true with regard to India's export trade. In the pre-war period, India was an exporter of raw materials whose prices were liable to wide fluctuations and consequently her trade surpluses were variable within very large limits from year to year. To counteract these the alteration of the exchange rate was the only indirect means at her disposal, though it was never thus used. In the post-war period, India will be developing her industries and will be thus enabled to use a larger part of her raw material production at home, which would be merely a continuation of wartime trends in this regard, India's character as an exporter of raw

[11] Article I (iii),

materials will radically change and there will be no need to use the exchange rate for this purpose.

Apart from these, there is also another and an important consideration. In a world of freely functioning economies the fixation of exchange rates very near, what, in the absence of a better term, may be called the natural level, is of great importance. For then the exchanges are the main active transmitters of economic force. They bring about an equilibrium of income and/or employment levels in various economies by exporting and importing price changes. A wrong parity in such a setting is a disaster of the first magnitude. In the post-war world such a situation is not likely to come into being. In the post-war world there is hardly likely to be a single freely functioning economy. Direct controls, varying in degree, will be imposed almost everywhere, over production and distribution. The emphasis will be on the direct controls on economic activities. In these circumstances parity fixations need not be done too finely. A rough approximation will serve equally well.

NEW ERA IN RAILWAY RATES

BY

V. V. RAMANADHAM

Andhra University

Indian Railway Rates have always been a subject of criticism. The public as well as the Government Committees have complained of various defects in their structure. Added to these inherent flaws which require redressal, there are new conditions ushered by war, which definitely warrant a new approach to the problem of rate-making. There is yet another factor whose degree of influence should not be overlooked or left without proper appreciation. The Government's role in business activity has gained in bulk during these war years. This should be an unflinching guide to their future outlook on railway rates.

"Railway Rates" is too broad a term. It has its two aspects, needing separate consideration: *viz.* (*i*) Rate level and (*ii*) Rate relativity. The former is a general and average question, while the latter is a particular and complex one.

RATE LEVEL

The level of rates is an indefinite term. It cannot refer to the mere average of rates. But the cross-section of rates, which it necessarily comprehends, is more felt than measured and is a vital consideration lying at the root of the problem : what is a reasonable rate ?

Apart from the temporary rise in rates during war, there has always been some cause for wide dislike for the rate level. It is perhaps better to analyse the bases of rate level than to elaborate on the charges against it. Fundamentally rate level depends on five factors, apart from the basic condition of efficient operation.

(*i*) Level of traffic.
(*ii*) Competition in supply of transport.
(*iii*) Target of net revenues.
(*iv*) Traffic ability to pay.
(*v*) The Rate Authority.

(*i*) *Level of the traffic.* The volume of traffic has a primary influence on the level of costs and hence

> on the level of rates. The Indian railways are now hauling an unprecedented tonnage of goods and number of passengers. It must be admitted, however, that war conditions prevent us, to a certain extent, from a statistical conclusion that the unit cost has fallen. It is not wise to base our judgment on the mere comparison of a rise in working costs with that in revenues. Both are affected by war conditions; and both have risen. And the lag in the rise of working costs cannot be a decisive indication that the unit cost has fallen.

It seems to be a better method to study the relative rise in working costs and traffic. It can be inferred from a close comparison that costs have lagged behind ton miles, passenger miles and engine miles. But the defect of this comparison is that service is a physical factor, and could be a normal factor; while costs are a financial factor, and are an abnormal factor. We can get a correct measure of unit cost only on a proper reflation of working costs in view of the wartime rise in prices.

But one thing is certain. Even as it is, the trend of working costs is indicative of a falling unit cost. If proper adjustments are made, it is all the more certain that the unit cost physically is the lowest under the present conditions of maximum traffic. Though under the auspices of abnormality, the Indian railways have reached the stage of the lowest unit cost in physical terms.

But it depends, for its continuance, on the continuation of the same volume of traffic. It is of interest to note that, at the slightest indifference of railways, the unit cost can rise as slyly, if traffic is lost, as it has fallen when traffic increased. The primary concern of the railways is the preservation of traffic in the immediate post-war days. The best way of ensuring this is to lower the rate level so that it may attract or preserve traffic continuously. The lower rate level is not an uncommercial step, since the traffic that it fetches or preserves helps in maintaining a low level of unit cost. It is not sufficient to return to pre-war rates. It is positively necessary to cut down rates further, for it pays to do so. This is an oft-forgotten measure in the right direction, namely a deliberate and calculated reduction in rates when traffic threatens to contract.

(*ii*) *Competition in supply of transport.* The effectiveness of this factor depends on the exact future of road haulage. Strangely, the Government has yet no decision on this major issue. Space does not allow of a discussion here of the relative merits and demerits of road haulage by small men, syndicates, district boards, Provincial Governments and Indian railways. Whoever might furnish the service, it is essential to ensure some parallelism or relativity between road and railway rates. In their approach to this problem, the railways should bear in mind two points. Firstly, war has added to the operating advantage of motor haulage. The large number of vehicles, the inexpensive supply of skilled labour and the war-bred economies in actual operation are factors that tend to cheapen road haulage. And, added to these, there is promise of radical road improvements in the near future. Rail rates cannot be made independently of these considerations. Secondly, special low rates must be recognised as temporary palliatives and never a permanent solution to road-rail competition. The railways should not revert to and fall back upon the pre-war structure of local concessions. The problem warrants a bolder solution at the root.

The difficulty of securing a desirable degree of road-rail relativity is minimum when railways do road services. But these are, for various reasons, immediately not probable in British India. The only other means seems to lie in a novel harmony between the Central and the Provincial Governments, under an agreement which compels the Centre to grant low railway rates through more economic operation and requires the Provinces to stabilise an economic road rate. These rate agreements shall be further qualified by service conditions like the range of haul and the nature of goods allowed to the motor vehicles.

It is coasters that more heavily compete with railways in the carriage of goods. The extent and incidence of such competition is reflected in the port-to-port rates and all concomitants, which are admittedly too low. It may assume higher importance in future, as war has released an excessive shipping tonnage for civilian uses. It is possible

that the Indian coastal waters will attract a substantial part of it, as these are yet unreserved. The railways, *i.e.* the Government, may then face an irredeemable situation, as the coaster rates might be low as well as very unstable. There is no effective solution short of coastal reservation which entitles the Government to control rates and sailings. It is surprising that the Indian Government has never been struck with the real toll of coastal shipping on railway finances. The Government has a keen eye on high revenues, rather than a quick capacity for proper remedies at proper stages.

(*iii*) *Target of net revenues*[1]. "Reasonable rate" has little meaning independently of this factor. The ideal rate level is made up of cost as well as return on capital, and becomes far from ideal unless there is a decision on the amount of return on capital outlay. The British Government have adopted 10% on railway capital as the maximum dividend, which, if exceeded, becomes automatic ground for rate revision. Such a check on net revenues is always a check on the rate level. But it does not exist in India and in its absence the rate level has a wider latitude of ascendence.

The implications of rate control in advanced countries, evidenced by the actual limits to railway earnings, are in favour of a generalisation that railway rates—or transport rates—being basic prices, which are really material costs in all productive activity of the nation, should not be made a means of profiteering. It is enough that railways are run as a commercial concern. But the Railway Convention has actually imposed a far heavier responsibility, which the railways could not honestly fulfil during many consecutive years. The 1% on capital, as minimum cumulative contribution, is an ambitious spoke in the wheel of Central Revenues; it is all the more so in the transitory stages of our industry and trade. The Government should realise the impossibility of this contribution without detriment to the flow of traffic and should feel satisfied with the indirect revenues in many other ways.

[1]See "Railway, Convention and Surpluses", INDIAN JOURNAL OF ECONOMICS, July, 1945, for a fuller discussion.

It is a pity that the Convention is now suspended in favour of a greedier rule of division of railway surpluses. With war the latter may fade too. But the Indian railways cannot now lay hands on their war-time surpluses in their flexible place of rate modifications. The Government, to be wise in decision, should frame a flexible convention which does not repeat the mistake of being based on the results of good years.

(*iv*) *Traffic ability to pay.* The ability of traffic to pay is the largest single factor in fixing a rate on a particular consignment Its significance is more from the standpoint of rate relativity, which is discussed below. In a general way it may be said that the rate level should be low in India, as our traffic is presumably of a poor character. Comparisons of Indian and foreign rates, which are often made, are defective, unless this factor is visualised in its fullest significance.

(*v*) *The Rate Authority.* This is not a basic cause of rate level, but is an effective check on it. As Indian railway rates are not commonly known to be too low, the normal function of the Rate Authority should be to arrest a rise in rates and direct a reduction in necessary cases. That there should be such a body is unquestionable in times when the Government has assumed the monopoly of railway service. But, to be effective, the body should be given powers of initiative, effective recommendation and direction. The Indian Railway Rates Advisory Committee has none of these qualities that favourably influence the rate level. The moral influence, apart from the practical effects, of a powerful tribunal in India can only be felt rather than argued at length. The Railway Board should not be the final Judge on its own misdoings. The Committee should be so changed that commercial experts pool their faculties of judgment with the experienced outlook of railway men and their conclusions take definite and immediate shape.

It is true that millennium cannot dawn on the realm of rates by a mere creation of a strong Rate Body. But

it is equally true that rates would be kept from unhealthy stagnation. A powerful rate-regulating body is a passive influence on rate level.

What emerges from the above discussion is the absence of any basic principle in the Government's concept of rate level. Neither cost nor value of service is taken as the guide. Nor is a limited net revenue the undercurrent of railway rates. Rates existed, without a definite basis. Nor was there a definite object, except perhaps an unlimited profit. It is time that the Government should radically improve its vision.

RATE RELATIVITY

Rate level is not a conclusive index of a good rate system. Traffic as a whole may be affected by it. But shippers are more concretely affected by the relativity of rates. It is discrimination shown between commodities, places and conditions of carriage, that is actually felt by traffic-men.

That the normal pre-war rate structure was bad is the burden song of all criticism on railway rates, too popular to need elaboration. It is more essential for the railways to appreciate that war has brought about new factors that need incorporation in their future outlook on rate-making. The changes relate to both industry and trade.

New industries are set up. And railways will have to reckon with products that suddenly assume importance not only as traffic but as infant manufactures. Their relative place in the list of commodities is a factor for new decision, on which its fortunes partly rest. The railways have begun to encourage most of these new industries, perhaps because of their war-time importance. Sulphuric acid, copper sulphate, sulphate of alumina, copper as green sulphate or iron, glycerine, scrap for rolling mills and materials for aeroplane construction are some of the new industrial variety, on which concession rates are already quoted. It is necessary for the railways to make a permanent incorporation of them in their rate mechanism.

Similar in effect is the rise of new industrial centres, either as a sequel to new manufacturing or as a precursor to industrial dispersal from old concentrations. Industrial locations have also been affected by other war-time need

like zonal self-sufficiency to a certain degree and the nature of military demand for the products. The incidence of these industrial locations will be enormous on railway rates, if they are to be dynamic and useful. The whole character of existing station-to-station rates at once changes, for they have to be fitted into the new locational conditions. Many new rates have to be added to the Exception Lists, and many existing ones probably annulled.

The Government have shown, in a recent memoradum, that a better regional distribution of industry is essential and that the war has witnessed the right beginnings. It must be stressed that the railways should be made to give due weightage to this need in all future rate-making. The exact degree of concession to a new product or centre depends, of course, on the major question as to which of the new industries and centres will survive the Governmental plans for a return to a peace economy.

The face of trade has remarkably changed during the war. Even on superficial observation, one can point at the change in the relative place of internal and foreign trade movements. There are substantial curtailments in both exports, and imports which are replaced by consignments of national products themselves. Railway traffic, it must be noted, is consequently made up of a higher fragment of internal trade than in normal times. This tendency may continue in the immediate future for the same reasons, probably supplemented further by enormous road building which will give great fillip to internal trade.

The prominence gained by internal trade movements is emphasised with a view to arguing that the railways, against which the "long standing grievance" of undue concessions to foreign trade exists, really need courage to regiment a new structure of rates, more suitable to an internal trade. Their path in this direction is, however, eased by the war-time cancellation of many concessions once calculated to foster exports and imports.

The above argument is not a pretence for discrimination against foreign trade. In fact the railways must adjust their rates to the almost miraculous transformation of the make-up of our foreign trade during the war years. Imports of raw materials improved from 22% in 1938-39 to 45% in 1943-44 ; while the exports of raw materials steeply fell from 43% to 22%. Equally striking are the changes in

manufacture trade ; imports have fallen from 61% to 45%, while exports jumped from 28% to 54%. Is it not logical then to argue that these are sufficient changes to warrant radical alterations in a rate system based on traditions of undue encouragement to raw exports and manufactured imports, and deliberate discrimination against manufactured exports ?

Further, there is a conspicuous deviation from the normal direction of movements. Traffic movement, free and solicited at one time, has been subjected to rigid controls. The restrictions imposed by the Regional Controller of Railway Priorities are of crowning significance in almost rationalising our traffic movements. Uneconomic cross-movements, like salt between Bengal and South India, glass between U. P. and South India were banned and consignments from distant origins were restricted, if nearer sources were available, *e.g.*, special rates on coconuts were cancelled between Calicut and Shalimar, Badagara and Bombay etc.; similarly timber was discouraged from Mormugao Harbour to Londa and Hubli in view of nearer supplies at Alnavar and Hubli. The Railway Board in fact expressed that "the underlying principle is that areas should be self-supporting, as far as possible, in supplies of articles in common use, in articles of relatively small intrinsic value."

There have been other cases of changed routing, either to secure movement by the shortest route or to relieve the congested routes. For instance, the M. S. Railway Singareni coal from the route *via* Bezwada-Madras route to Bangalore City was transferred to the metre gauge route *via* Dronachellam, Guntakal and Hindupur ; military traffic from Kirkee to Bangalore was transferred from the route *via* Raichur, Guntakal and Hindupur to the metre gauge route *via* Poona and Harihar. The Poona Agreement, further, was so modified that movements were by the shortest route.

The closure of the eastern ports and the loss of export markets have been additional factors which compelled radical changes in routing. For instance, carriage, at low rates, had to be arranged for the Tata's imports from Cochin, rather than from the usual Calcutta, to Tatanagar.

There are two conspicuous conclusions from the above description. Firstly, movements have been rationalised so

that the community's aggregate freight bill is minimum. The railways must assure the nation with a continued benefit of this kind, by instituting a suitable rate structure. Secondly, railways have forsaken their old bias for individual maximum revenue. The S. I. R at one time might have favoured cotton shipments from Tirpur to Calicut rather than to *via* Jalarpet, as the latter would give a shorter lead to it. But it ensures the longest railway lead on the whole. War has impelled an inevitable sacrifice of self-interest in favour of total operating and financial economy.

Most of the new routings, whose origin has been in the war, are likely to continue and are best continued. A suitable rate structure is necessary and perhaps not difficult to obtain in view of total nationalisation of all railways.

It is not out of place to refer to a few typical problems of rate-making, where special attention must be paid to some extraneous factors. Some of our raw materials have a contracted demand at present. It may not greatly expand until national and Allied industries are capable of taking the place of lost markets. Cotton, jute and oilseeds may be cited as examples. It becomes a very special problem to fix their rates so as to assist in the national trade plan with regard to these commodities.

Some of our exports, like cotton, suffer from serious international competition, further, aggravated by the possible subsidy by the U. S. A. Government to its cotton. Are the Indian railways to quote such rates as include an element of similar subsidy, which the Indian Government will, however, not grant directly ? And is it possible or desirable to distinguish between goods exportable and goods internally traded in ? These are all very intricate questions.

An allied problem of rate-making refers to manufactured imports. What is the exact role of railway rates, if any, in discouraging them ?

Moreover, the railways should closely follow up the trend of prices of different commodities so that rates may be suitably altered, probably lowered. Otherwise rates become as rigid and hard as after the last war, on particular commodities. There is a large variety of other miscellaneous factors, which may be compositely entitled national and international commercial trends, in the light of which the

rate structure should change. These are too intricate to define usefully.

To sum up : The rate structure of the Indian railways should be flexible in the transitory stage, and appreciative of the pulse of industry and trade in an unprecedented measure. The essential pre-requisites of this desideratum are :

(*i*) The Railway Rates Advisory Committee should become a really powerful regulating body.

(*ii*) The Indian Railway Conference Association should persist in rate research, with the encouraging assistance of trade and industrial experts.

(*iii*) The Government should waive its pound of flesh by re-drafting the Convention.

(*iv*) Traffic should be considered with some bias ; and error, if necessary, should always be in favour of traffic movement.

and (*v*) Efficiency of railway working should be ensured so that the greatest economy in operation is possible.

These are conditions precedent to good rates and good rates are a condition essential for Indian prosperity. The Government can ensure prosperity to its people only if it betters the railway rate structure.

TRANSPORT RATES AND INDUSTRIAL DISTRIBUTION

BY

R. BALAKRISHNA

University of Madras

[The main objective of this paper is to examine the influence of the existing railway rate structure on industrial distribution. In India commodities are classified into sixteen categories and are mostly transported according to class rates which vary within the margin provided by the maxima and minima rates laid down for each class. The special rates are schedule and station-to-station rates, but the proportion of traffic carried according to them is low. Besides, the schedule rates suffer from the defect of discontinuous mileage system in their application. The diversity of schedules on the Indian railways and the nature of risk rates are the other defects of the prevailing rate structure. The special rates from port cities favours imported commodities and thus neutralises to a certain extent the tariff protection available for Indian industries.

Thus, the influence of transport rates in India is by no means favourable to a correct allocation of industries according to their natural setting. On the other hand they are often negative in character disturbing the normal tendencies of distribution. There are several industries in need of special transport concessions for maintaining their competitive position with imports. But the rate structure is not sufficiently responsive, as they were never designed with the objective of encouraging national industries.

Planning today is largely regional as it is considered to be the correct approach for a country of vast distances like India. The success of regional planning depends upon a judicious co-operation of transport rates. Hence a revision of the present rate structure is incumbent. The main lines of revision would consist of a universal application of the 'continuous' mileage principle and a more liberal use of the station-to-station rates. To achieve the ideal of regional planning a subordination of the commercial interests of the railways even to the extent of State subsidization may be advisable.]

An attempt is made in this paper to examine the features of the existing railway rates in India and to determine their influence on the distribution of industries in the country. At the outset the rate system among the Indian railways is briefly examined, pointing out their shortcomings purely from a theoretical standpoint; inci-

dentally making comparisons with contemporary systems in vogue elsewhere. Nextly, the type of correlation between the present rate structure and industrial distribution is ascertained in order to see whether its influence is of a positive or of a negative type. Either way it is examined to see whether or not the tendency is in consonance with a desirable distribution of industries as judged from certain scientific standards. Then the benefits of a regional development for our country are estimated, calculating its dependence on a judicious co-operation of transport rates for its success. Finally, a few suggestions are offered for a revision of the existing rate structure in conformity with a prearranged regional plan. In fine, the main objective of the inquiry is to appraise the influence of a deliberately designed system of transport rates on a policy of regional development.

FEATURES OF EXISTING RATES

The structure of railway rates in India, as among other countries, is based largely on the 'value of service' principle, though it is often modified under the influence of other factors, such as the bulk of the article in proportion to its weight, risk, nature of packing, regularity of flow of traffic, size of consignment, type of wagon, competitive carriers, etc. The essential technique adopted to give effect to the value of service principle is the classification of goods and the resulting class rates. On the Indian railways commodities are grouped into sixteen classes and they are charged differently according to a maxima and minima rate laid down for each class. The maximum rate ranges from 0·38 pie per maund per mile to 1·87 pie per maund per mile and the minimum from 0·10 pie to 0·166 pie. Class rates are of two types depending on whether the maximum rate is charged or a rate lower than the maximum is charged to encourage the growth of traffic. In the latter event it is known as an Adjusted Class Rate. A second variety of rates in vogue is the schedule rates which are invariably lower than the maxima rates and are telescopic in character. Thirdly, what are known in India[1] as station-to-station rates are quoted between particular sta-

[1]They are known as "commodity tariffs" in America and "exceptional rates" in England.

tions either to encourage the growth of new traffic or help particular industries.

Obviously, the mechanism that has been evolved is sufficiently flexible and provides ample scope for manipulating the rates in a manner that is conducive for the furtherance of any accepted objective, such as the encouragement of economic development in any particular area. But in actual practice there is not even a semblance of an attempt to adjust rates for the achievement of any particular cause. This may be either because until recently there has been no national policy of economic development or because commercial considerations have outweighed the wider issues of national policy. This is evidenced by the relatively small proportion of the total traffic carried in India on the exceptional basis such as the station-to-station or schedule rates as compared with other countries like the U. S. A.[2]

Besides, there are certain features in the Indian railway system which nullify the salutary effects of the exceptional rates while they are actually applied. The chief among them is the system of 'discontinuous' mileage in the operation of the schedule rates. According to this, long distance traffic does not get the benefit of the telescopic rate for the entire mileage over which it is hauled but only up to the local distance of each railway. Particularly in a country of long distances like India a calculation of schedule rates on the basis of continuous mileage would yield beneficial results. But the only consequence of the introduction of the 'continuous' mileage principle where the 'discontinuous' principle is now applied may be a loss of revenue. Hence the Wedgwood Committee was of opinion that instead of a drastic change, all cases of hardship caused by it may be dealt with by the application of station-to-station rates by a quotation approximating as nearly as possible the figure of the through rate calculated on the continuous principle.[3]

The solution offered is, however, incapable of remedying the situation either way. It can neither do justice to all cases of hardship nor insulate entirely against the loss

[2] K. C. Srinivasan : *The Law and Theory of Railway Freight Rates*, pp. 29 and 30.

[3] Wedgwood Committee of *Indian Railway Enquiry*, 1937, p. 81.

of revenue. Apart from the actual traffic which suffers from a heavier cost of transport a large proportion of potential traffic may be discouraged on account of it from embarking on the journey. It is difficult to estimate the proportion of it for the application of the remedy and it is also impossible to compute its bearing on the probable industrial progress of the country which might have otherwise occurred. With regard to the loss of revenue the solution of the Wedgwood Committee cannot insure against a loss to the railways. If the station-to-station rate is made in effect to correspond to the continuous mileage principle in all cases of hardship it is bound to result in a loss of revenue. Besides, the schedule rates and the station-to-station rates are constituted on two different principles and cannot, therefore, be sustituted for each other for purposes of expediency. The telescopic character of the schedule rates corresponds to the economy of long haulage whose benefit is legitimately due to the traffiic concerned whereas station-to-station rates are exceptional in character due to certain extraneous circumstances and are irrespective of the value of service or cost principle.

Therefore, the logical development of this aspect of the Indian railway rate system is the introduction of the 'continuous' mileage system for all traffic concerned and a more liberal application of the station-to-station rates in conformity with a pre-arranged regional plan of development by the nation. The consequential loss of revenue to the railways will be partly made up by an increase in traffic and the rest should be borne by them. There cannot be a case to reimburse the loss fully as the revenue is to a certain extent illegitimate in the sense that it arises from an exploitation of the long distance traffic of certain economies that arise in their operation and are, therefore, legitimately due to them.

Another defect in practice is the diversity of schedules on the Indian railways. The case of cement is cited by the Wedgwood Committee.[4] While the Committee feels that a certain degree of diversity is permissible due to variations in the nature of road bed and conditions of traffic, still they feel that there is a great necessity to work in the direction of greater simplification in this respect. Apart from the

[4]Wedgwood Committee: op. cit. p. 79.

arbitrariness of such diversity it is likely to create unequal competitive conditions for industry in different parts of the country. Hence unless they are fully warranted by natural and traffic conditions they have no justification to remain.

Then with regard to 'Risk Rates' the conditions obtaining in India are different from those elsewhere. In the Indian rate structure there is a greater tendency to encourage traffic being carried on owner's risk. The schedule and station-to-station rates are invariably quoted on the owner's risk basis. If railway risk is preferred by the party it has to be carried according to the class rate. Even with regard to class rate the traffic may be carried either on owner's risk or on railway risk, but the proportion of difference between the two is far in excess of the actual degree of risk. Corresponding conditions on foreign railways are entirely different. On the American railways goods are always carried on railway risk which is but legitimate and reasonable[5]. On the English railways the Railway Rates Tribunal determines the percentages of difference between railways risk and owner's risk rates according to the susceptibility to damage. Besides, even exceptional rates have a corresponding railway risk rate unlike the Indian system[6]. The main observations to be made in this connection is that the railways cannot absolve themselves of all risk and if the consignor so desires he must be able to insure himself against risk at a reasonable price by sending it on railway risk, as there is no other form of insurance, for railway traffic. Further, the choice of exceptional rates need not be punished by imposing the owner's risk basis. These are matters about which the State has to take cognisance in the interest of the public.

Lastly, the vexed question of the preferential treatment of import and export traffic may be subjected to some examination. Both the Acworth Committee and the Public Accounts Committee of 1934-35 were of opinion that the allegations are not fully supported by facts. The Acworth Committee point out that the rates on raw cotton or cloth to and from Bombay are the same whether

[5] R. D. Tiwari: *Railways in Modern India*, p. 198.

[6] *Wedgwood Committee Report*, pp. 82-83.

they are worked up there or exported[7]. The Public Accounts Committee [8] admit that the alleged practice might have been in existence some years ago when India was relatively less industrialized and the bulk of the traffic was at the ports to which the tariffs had to be adjusted. They say that conditions have now altered but the reason for the continuation of the allegation is the quotation of special rates to and from ports. The only justification for them is that the ports are the chief distributing centres and also important industrial areas. The Committee quotes instances to justify the practice that corresponding reductions are not feasible under all similar circumstances unless fully warranted by competitive conditions. While admitting the force of the argument I am, however, of opinion that unless each case is examined on its own merits the old practice might revive and persist under the guise of economically justifiable special rates. Particularly under a scheme of regionalism an encouragement of traffic to a port is inconsistent. Special rates should be so designed not only to disperse industries to areas relatively less developed, but to encourage potential areas of industrial development.

INFLUENCE ON INDUSTRIAL DISTRIBUTION

It is now germane to enquire the type of influence that is exerted by the existing rate structure on industrial distribution in the country. In this respect the rates may be in their effect positive, negative or indifferent. If they are positive there is a definite encouragement for traffic to move in a particular direction. If this influence is in the right direction, as judged by other objective standards, the rate structure may be said to co-operate with planning of industrial location by the State. On the other hand, it may be negative in the sense that it hinders the normal movement of goods as influenced by economic conditions. If so, it is necessary to see if industries are being led away from their legitimate places of location. Thirdly, it is quite likely that the rates are absolutely indifferent in this respect, being based entirely on scientific principles. Finally, it would be of interest to know if the rate structure nullifies the fiscal policy of the country.

[7] Acworth Committee on the Administration and Working of Indian Railway, p. 50.

[8] Report of the Public Accounts Committee, 1934-35, Appendix VII.

This problem may be examined with reference to particular industries.[9] The cotton industry has now spread out over a wider area than at the initial stages, but this scatter has not in any way been caused by the influence of transport rates. On the other hand, it has occurred in spite of unfavourable rates. Bombay has had the advantage of special station-to-station rates both for the importation of raw cotton and the export of piecegoods to the consuming centres. This privilege was granted to Bombay because it was a port city and not with a view to encourage the cotton industry. The growth of the cotton industry at the up-country centres was on account of other favourable circumstances rather than transport facilities. Even though those centres are amidst cotton growing areas the importation of better varieties of cotton by them is incumbent and any railway concession granted for them would have been of immense help. Such concessions are conspicuous by their absence and Nagpur is one of the important centres which is affected by it. So, taking the cotton industry as a whole, there appears to be no conscious attempt on the part of the railways to encourage their development at suitable centres. On the other hand, there has been an indirect stimulus given to Bombay. But even that has been due to other motives, as we have already seen, with the result that imported piecegoods enjoy a better competitive position at the interior consuming centres due to their superior quality. Thus the policy of the railways has also a tendency to neutralise the effect of tariff protection. The same indifference is manifested with reference to the woollen industry. Except Cawnpore, which has various favourable circumstances, no other centre has been able to flourish in the absence of exceptional rates. The woollen industry at Bangalore is particularly affected on account of this reason.

With regard to the cement industry transport cost is a very important consideration due to the necessity of securing coal from great distances and the heavy cost of transport on the finished commodity to the port towns which are the most important consuming centres. The difficulties of the industry are mostly inherent and nothing has been deliberately done by the railways to hinder their growth. The greater distances over which Indian cement

[9]See Tiwari: *Railway Rates in India.*

has to be transported before they could reach the ports and the competition of imported cement at those places are matters for which the railways are not to blame. But a large measure of relief could have been obtained if the 'discontinuous' system of mileage was removed. Imported cement gets the benefit of schedule rates to the interior to a larger extent than local cement as the latter has to traverse over a large number of railway systems. The recent concessions on coal and the quotation of station-to-station rates in certain instances has given some relief. The main line of reorganization for the cement industry is, however, by means of better organization of marketing avoiding cross freights.

Special rates are quoted for coal by the Government of India on account of its importance for industrial development. Substantial reductions were effected in the rates during 1926 and 1929 but the surcharge of 15% levied in 1932 has neutralised the reductions to some extent. In India the importance of transport rates for coal loom large on account of the concentration of collieries in one area. There are two lines of action open for the railways to ease the situation. The adoption of the 'continuous' mileage system is absolutely essential for coal. The other device is to quote special station-to-station rates to such of the industrial centres whose competitive capacity is impaired by the high cost of coal and where an exploitation of resources is essential from a national standpoint.

The Indian sugar industry is in need of concessions in transport due to its high cost of distribution, because of the concentration of the industry in certain areas. The exceptional rates quoted for sugar on the Indian railways have provided it with a transport protection in addition to the tariff protection. So imported sugar has no incentive to compete even on the basis of transport concessions as during earlier days. However, this in itself is not a matter for gratification so far as the sugar industry is concerned. The adoption of a rational system of transport concessions is essential for an equitable distribution of sugar all over the country. This policy is warranted by the high concentration of the sugar industry and the necessity to avoid excess output by a multiplication of factories at different centres due to transport protection.

A study of the foregoing industries reveals the fact that except in a few cases, the rate structure in India

has not been deliberately designed to encourage either a growth or a scientific allocation of industries. So there is no positive influence exercised by the railway rates on industrial distribution. Some of the concessions enjoyed have had, on the other hand, a negative influence. The special rates on raw cotton to Bombay perhaps prevented an earlier scatter of the industry to up-country centres; which might have probably reduced the severity of the depression in the Bombay section of the cotton industry. In most other cases there is an air of indifference about the needs of particular industries until such time that a competitive route disturbs their equanimity. There is also some evidence to prove that the special rates from ports have a neutralising effect on the tariff policy.

REGIONALISM AND A REVISION OF RATES

Planning in India is now largely based on the principle of regionalism. It refers in essence to the exploitation of an area which may be considered as an economic unit by reason of its natural resources. It is not synonymous with Provincialism as the economic unit envisaged may even transcend the political boundaries of a province. The approach to planning from the regional standpoint is to ensure a full exploitation of the potentialities of each area and to avoid all such industrial development which is not justified by differences in natural resources between regions. A regional division of the socially necessary work is the only equitable method of distributing current production. An integration of regional plans with the All-India standpoint will serve as a corrective of each other[10]. The regional method of approach is particularly suitable for a sub-continent like India with its varied resources. The diversity in the distribution of raw materials and the availability of the required type of labour in almost all regions are factors which are in favour of an exploitation on the regional basis. Further, from the standpoint of scientific location of industries transport orientation is relatively more important in India on account of the great distances to be traversed. Hence, the influence of transport rates is very great for a successful fruition of regionalism. Therefore regional planning should see if the present rate policy hin-

[10] **Indian Finance : Regional Planning Supplement, 1939.**

ders the cause of regionalism in any manner and hence stands in need of revision.

From an observation of the foregoing brief study of railway rates in India it is obvious that they have not exerted any favourable influence on the allocation of industries. It is but natural because rates in India were never evolved with any idea of encouraging industrial development. So to achieve the new objective a revision of the rate policy is incumbent. The rate structure has to be framed afresh on the basis of a pre-arranged regional plan. In fact it may even be necessary to make appropriate rate adjustments a part of regional planning. After evolving a scheme of zonal development of industries the type of special rates to be quoted between particular places should be determined and imposed on the railways. Besides there should also be a reduction of class rates wherever feasible and a universal application of the 'continuous' mileage principle. No doubt these changes would imply a deviation from the correct principles of rate-making and may even involve the railways in a fall of revenue. The question of adequate revenues for the railways has to be dealt with on different lines because under a planned economy the interests of the transport system should be subordinated to the higher objective of achieving the national ideal. If necessary, the loss of revenue may be made up even by state subsidisation. As most of the railways in India are now State owned the loss of revenue on this account would be a deduction out of their contribution to central revenues. Individualistic proclivities have no place under a scheme of national planning. Even alternative means of transport may have to be encouraged by the State if such a diversion is economical and at the same time in the interest of regionalism. Hence it is advisable to have a policy of transport co-ordination specially designed to encourage regional distribution. The policy of regionalism in a country like India where resources are widely scattered on account of great distances can be harmonized only through a regulation of transport cost.

In conclusion it might be said that the general tenor of the rate structure of railways in India is one of indifference to the needs of industry. The exceptional rates quoted by them are at best improvisations to obviate special difficulties which they have had to encounter from time to time.

A reorientation of the national policy of industrial development demands a revision of the railway rate policy. Without the co-operation of the national transport system the chances of success of a regional development are few and far between. Therefore suitable changes in the transport rates ought to be incorporated in the blue prints of regional planning drawn up for India.

A NEW BASIS FOR RAILWAY RATES—THE SOCIAL BENEFIT OF SERVICE PRINCIPLE[1]

BY

DR. M. H. GOPAL, M.A., PH.D. (LOND.)

The University of Mysore

[This essay evolves a new rate structure as required in the Second Report of the Reconstruction Committee of 1944 in keeping with the post-war requirements of a planned economy. It argues that the current cost and value of service principles are inadequate as they take a business view of railways. Transport must be viewed as a key industry and its rates based upon the Social Benefit of Service Principle, de-linking rates from cost and abandoning the view that railways are merely a source of revenue.

The new basis can be applied to the planning of production, especially industrialisation and regionalisation and should be dovetailed with fiscal policy; it can be used for indirectly subsidising consumption in the same way as social security services; and for achieving non-economic objectives, such as redistribution of population.

A few directives to aid the application of the new basis are suggested—the establishment of a Rate Board; the classification of areas and goods to evolve a scale of preference; the place of overhead and prime costs in the new rates, etc.]

In 1944 the Government of India's Reconstruction Committee enunciated[2] the general policy "that intensive development of industries in India is necessary" and asserted[3] the need for the "evolution of a new rates structure in keeping with the post-war requirements of the country as a whole." The object of this essay, accordingly, is to evolve a new basis applicable to India in the post-war reconstruction period and perhaps after, pointing out at the same time why the current principles of railway rate regulation are inadequate. I make two assumptions—*first*, a rates policy must not be based on *a priori* theories but must relate to economic necessities of each particular environment; *second*, Indian economic development will be

[1]This basis can also be applied *mutatis mutandis* to other forms of transport but I have confined my attention to railways.

[2]*Second Report on Reconstruction Planning*, 1944, p. 8.

[3]*Ibid*, p. 30.

on the basis of an economic plan where all factors and agencies of production will be harnessed and interwoven to achieve 'the intensive development of industries'. The new basis suggested below—which may be called '*The Social Benefit of Service Principle*'—has already been in operation *to a limited* extent in Germany, Japan and other countries since the early days of their industrialisation, but its importance has not been recognised in theory while its application has been restricted in practice.

The transport services especially the railways, have certain peculiarities not found in other types of economic activity. On the one hand, they are an avenue of investment and a source of profit similar to any other profit-yielding enterprise. The business aspect necessarily implies a high degree of operational efficiency in the organization and management of the undertaking. This Anglo-American attitude regarding transportation as an end in itself is essentially individualistic. It has given rise to the current yard-sticks of rates regulation, *viz* : (1) what the service costs ; (2) what the traffic will bear ; (3) what the carriers need to maintain their plant and their operation on an efficient basis.[4] These are essentially the applications of the general orthodox theory of value. As the Continental authority on railways, C. Colson, asserts[5] "the general laws to which the determination of prices is subject in either of these cases (competition and monopoly) hold sway over the whole of the transport industry."

The fundamental business principle is the *cost of service* basis viewing rates and fares as the price paid for particular services. The revenue of a railway must suffice to meet both the additional net costs and the fixed costs except that in the short run repairs and renewals may be held over. This is the supply aspect of value. No commodity can be sold below its cost of production ; so also railway service. Of the two varieties of cost—prime and supplementary—both must be recovered in the long run, whereas in the short run generally prime costs at least must be charged. "There can be no question, observes Ripley,[6] that for an indispensable service like transportation

[4]J. H. Parmelee : *The Modern, Railway* 1940, p. 309.

[5]*Railways and Industry*, translated by L. R. Christie and others, p. 11.

[6]*Railroads*.

conducted under monopolistic conditions, the ideal system of charges would be to ascertain the cost of each service rendered and to allow a reasonable margin of profit over and above the amount."

But the application of this principle is beset with difficulties, such as, the impossibility of allocating costs to different units of output, of dividing the overhead costs, etc. Consequently the *value of service* principle comes in and as a basis of rate-making it begins where the cost concept ends. Charging what the traffic will bear or, rather, not charging what the traffic will not bear, becomes important. The level of the standard rate on a long-term view of the price of the article transported in relation to its weight or bulk becomes the guiding factor. This rule is essentially based upon the demand aspect of the market.

Naturally, these two principles are modified in practice and we have class rates, zone system of charging, exceptional and special rates, tapering rates, group rates etc. But, whatever the modifications, the fundamental business aspects are not abandoned. The monopolistic feature of railways giving rise to differential charging is utilised so to adjust rates and fares as to yield, on the whole, greatest aggregate net revenue.[7] Sometimes, in their own future interests or on account of State interference the railways may not exploit the market so as to yield immediately the maximum revenue, but the *cost-price-profits* standpoint is always present.

Such an outlook is not in social interests. For it frequently fails to produce the output socially most desirable. There is often a discrepancy between the point of maximum entrepreneur's returns and that of optimum social advantage, between consumers' effective demand and aggregate social demand. Thus, in many countries, including our own, a number of unremunerative branch lines have been closed and otherwise useful lines have not been constructed, to avoid a drain on the financial resources of the concern. Rates will be lowered only if traffic and income increase and not because national economic interests demand it, as otherwise, the net returns would be reduced. As Bonavia puts it[8], "A railway, for

[7] *The Modern Railway*, p. 312.

[8] Bonavia: *The Economics of Transport*, p. 45.

instance, may yield high prospective social returns, and yet in a community chronically short of capital, offers lower private returns than other industries.

These and other limitations led to nationalisation. In no case of nationalisation, were the reasons primarily commercial, *i.e.*, no government entered the field as an investment or took over private lines *because* they were profitable. "It is clear," runs the 1934 Report of the American Federal Co-ordinator of Transportation,"[9] that other countries have adopted public ownership and operation, not as a matter of principle, but for reasons of expediency. Often they have been forced into it, because private enterprise would not build, or could no longer carry on. Sometimes military considerations have been paramount, or an unwillingness to rely on foreign capital, or a desire to use the railways for the benefit of the general business and industry of the country in its competition with other countries."

The basis and structure of railway rates, like any economic or social concept, are a product of gradual growth when accepted ideas are adapted and modified to the varying and growing needs of a dynamic society. Such adaptations are found even in profits-propelled businesses. In a country passing through an industrial revolution and trying to build up her economic structure in the midst of established powerful competing economic interests, the classical theory of railway rates must be replaced by an enlightened, vigorous national railway policy.

This leads us to the second and more important aspect of railways that they are a key or basic industry. Transport services are a vital part of the economic system, even as the circulatory system is in the human body. In fact, industrial civilisation hangs upon a developed, efficient and adequate system of transport, not only coordinating the different means of transport but also woven into the productive and distributive factors. It would not do to hold, as Marriott does,[10] that "the business of railways is to sell the public what the Americans call transportation or, in other words, they are purveyors of carriage." On the contrary, transport with its immense financial, technical, economic and social significance is undoubtedly one

[9] *Report*, p. 14 (quoted in *The Modern Railway*, p. 600).

[10] *The Fixing of Fares and Rates*, p. 15.

of the major problems of the age and the study of when and how, its organisation fits into the apparatus of a country's economic and social development is of very great practical importance. From this point of view railways cease to be a business, especially in the profit aspect, although they should be regarded as such in their efficiency aspect. They transcend the cost-price-profits basis; they cease to be investments looked at from the short-term view-point; they become *not merely public utilities*, but instruments of national planning. As such, they become a key or basic occupation viewed from the long-term standpoint of national development and from the wider angle of social returns than the immediate gain either in the shape of a return to the investment or even short run economic advantage to the community. As Hermann Schumacher put it,[11] "From the standpoint of the community at large the railways may be considered a means in various ways. They may be considered from the general, economic, financial, commercial, political and the military point of view. They may be looked upon as the means of political power, of revenue and of traffic. Of course, all these points of view have been taken into consideration in the nationalisation of the Prussian railways, but the decisive and dominant factor was first and foremost, the general economic aspect of railways as a means of traffic subservient to the development of the economic powers of a nation." This is the Continental attitude which regards ultimate objects as more important than immediate profit, viewing railways as a means, not always an end.

From this attitude emerges the social benefit of service principle of railway rate regulation. Some outstanding features of this concept may be noted here. As already stated, it assumes that railways are not a business so much as a *key industry* whose place in society is as an instrument of economic progress. That means the utility or usefulness of a railway either as a system or as a particular line is judged by the extent to which it helps the economic advance of society, for instance, industrialisation or aiding the growth of national exports, or a redistribution of labour force. It is not a question of how much a particular unit of demand can bear or not bear, but how much

[11]The Nationalisation of Railways in Prussia (*The State in Relation to Railways*—Published by the Royal Economic Society, 1912).

of social gain results. "The object of State investment is to secure output of a kind whose social net returns are higher than its private net returns."[12] What matters is not consumers' effective demand but aggregate social demand. This in fact is an extension of the value of service principle, only the principle is judged from a long term and wider standpoint, *viz.*, the interests of the community in its many-sided aspects. Secondly, ***business costs do not matter***, that is, the special and general costs do not affect the price of the service. I have pointed out elsewhere[13] how the aim of the State is not the maximisation of profit, the minimisation of loss or even the recuperation of costs, but essentially the maximisation of social benefit and how consequently cost plays an insignificant role in socialistic pricing. "Unlike a private individual," as Gourvitch puts it,[14] "a socialised enterprise may well be made to sell at low prices or buy at high ones or both irrespective of its cost and financial requirements." While business costs do not matter, social costs do count. The latter involve much more in their connotation than is ordinarily included under the term social costs. Not merely the disease, accident, etc. aspects of cost but also what it involves in the form of retardation of the economic and social development of the country

When the link between cost and price is thus out, railways cease to be an investment and become a service with an indeterminable output. A surplus of one type of production should be applied to cover deficits, if any, once we escape from the domination of price. A socialist State in command of all the means of production will pursue the forms which it believes will yield the highest social returns without being troubled by the private returns that would be yielded in a capitalist economy".[15] Whatever the ultimate value of the cost-price-profits analysis, the business principle may become the basis of rate only when the economic dovelopment of a country reaches a mature stage, in the same way as internationalism and free trade are ideals to be reached through a period of national growth and protection.

[12]Bonavia, *op. cit.* p. 45.

[13]'Role of Cost in Socialist Pricing', *I. J. E.* 1941. p. 445.

[14]AMERICAN ECONOMIC REVIEW 1936, Supplement p. 268.

[15]Bonavia, *op. cit.* p. 160.

Thirdly, the social benefit concept involves the abandonment of the view which regards railways as a source of revenue. Prussia considered them for a long time as a "milch cow" which she could resort to without asking parliament for taxation. So long as this attitude prevailed German industrial growth was retarded.[16] Such has been the attitude in India.

The new basic is applicable to certain conditions which hold true of India to-day : First, as *benefiting production i.e.,* industrialisation: *Machinery and stores* needed for industrial purposes may be transported at less than even prime costs. This would not only foster industrial expansion but would even repay railway investment—if the business aspect is the ultimate test and aim—many times over in the subsequently increased business. Similarly, in the case of *raw materials and semi-finished goods.* Specialised production has made the finished product of one industry the raw material of another *e.g.,* dyestuffs and textiles, chemicals and tanning, etc. Transport costs are relatively of greater significance in the selling price of raw materials and, consequently, are more sensitive to small variations in the price of their transport—a feature not characteristic of the higher classes of goods.[17] No doubt, the current tendency is to integrate processes in order to minimise transport costs, but direct reduction of such expenses is extremely valuable. Moreover, *diffusion and decentralisation of industries* especially in large countries are to-day accepted as both necessary and desirable, and such regionalisation is one important aspect and object of planning. Its achievement could be easier and quicker and, when it is completed, co-ordination between the different regions can be more effective and *beneficial if* the social benefit of service principle in rate regulation is followed.

The success of the principle in the foregoing direction involves a dove-tailing of the transport and fiscal policies, for, as Bismarck remarked,[18] it is impossible to carry out a

[16]Meyer, *op. cit.* p. 98.

[17]About the importance of transport costs in location etc. *vide* Weber : *Theory of Location of Industries* and Dennison : *Location Industry and Depressed Areas.* pp. 44 and 66.

[18]Fenelon, *op. cit.* p. 14.

customs tariff policy independently of a railway tariff policy. Under no circumstances should the railway rates be allowed to neutralise the customs tariff as has happened in the case of our country. It is notorious how foreign owned Indian Railways contributed, by their rates policy, to the decay of our industries. The Indian Industrial Commission observed, "The grant of port rates nearly 50 per cent less than the internal rates has certainly discouraged Indian tanning and aided certain foreign industrialists to obtain a hold on a class of material of which India possesses a partial monopoly."[19] The Fiscal Commission referred to the rates policy as designed to encourage the export of raw materials and the import of foreign manufacture to the detriment of Indian Industries which often have to pay unfair rates both on their raw materials transported from other parts of India and on their manufactured articles despatched to the various markets.[20] The Acworth Committee of 1921[21] and the Wedgwood Committee of 1937[22] also referred to this complaint.

The Social Benefit of Service principle runs counter to the policy stated above and rejects the industrial Commission's apologetic statements:[23] "We have, we trust, made it clear that we advocate no one-sided policy of administering the railways as a means of subsidising industries, irrespective of financial considerations." It affirms, on the other hand, that the railways should be utilised to subsidise industries, brushing aside the worn-out short-term profit illusion. In fact, it offers an alternative to the State policy of granting direct subsidies, subventions and bounties needed for industrialisation and follows in this respect the advanced industrial countries.

After treating railways for a number of years as a source of revenue, Germany fully exploited them later for her industrial advance. Exceptional tariffs were adopted to protect German ports in competition with other nations,[24] *e.g.*, charges from Silesia to Dresden and the

[19] *Report*, para 271.

[20] *Report*, p. 73.

[21] *Report*, para 149.

[22] *Report*, para 130.

[23] *Report*, para 278.

[24] McPherson: *Transportation in Europe*, p. 110.

Baltic sea-coast were reduced to enable German coal to meet the competition of foreign coal.[25] Hungary used railway rates as a tariff barrier by making heavy discriminations in favour of Hungarian manufacturers.[26] Even Czarist Russia[27] by a decree in 1885 utilised railways partly for the purpose of fostering her shipping industry and partly for supplementing the policy of protection to Russian industries. The supremely effective policy of Japan in the same direction is well-known. Great Britain, the champion of the cost principle, was no exception. "Especially in the era of free trade, low rates on imported raw materials and bulky food-stuffs were very important factor in her national economy. The free import of food-stuffs and low rates on such traffic were essential in order that industrial costs could be kept at levels which enabled the manufacturing industries to compete in world markets."[28] Great Britain went a step further under the derating scheme which relieved the railways of the obligation to pay the greater part of the local taxation assessed upon them, on condition that the relief was passed on by reductions in charges on agricultural products and industrial raw materials.[29]

So far I have stressed the standpoint of production. The new principle is *applicable to the consumers also.* The poverty of our people is so great and their purchasing power so low that they need cheaper goods and in vaster quantities. Cheaper transportation of commodities, especially those with high elasticity of demand—and even many necessaries and most low grade comforts have great elasticity in India—and of goods produced under conditions of Increasing Returns would add to the poor consumer's satisfaction, while any consequent loss of railway revenue would be made good by taxation of those able to pay. This, in fact, is merely an application to railway rates of the broader interpretation of the theoretical Doctrine of Maximum Satisfaction.[30]

[25]Meyer: *Government Regulation of Railway Rates*, p. 64.

[26]*Ibid*, p. 137.

[27]*Ibid*, p. 163., The Policy of Communist Russia is too well-known to need repetition.

[28]Bonavia, *op. cit.*, p. 150.

[29]*Ibid.*

[30]Marshall: *Principles of Economics*, Bk. V, ch. 13.

The procedure suggested above is really indirectly subsidising consumption similar to social security services which are direct forms of subsidy. Such a stand rejects the Wedgwood Committee's view[31] that the primary business of a railway is not to spend money or even to save it but to earn it and that it is a misdirection of policy to regard the railway as purely a spending department like public works or education. The proper policy, according to the Social Benefit of Service concept, is to regard transportation as a spoke in the wheel of national development where the profit or loss incurred by any one venture is immaterial, in the same way as an entrepreneur would spend on the advertising accounts or welfare departments in his factory without calculating the short run return from them but regarding them as a part of the whole show.

The *non-economic* needs also the new rates basis can be beneficially applied; for instance, to prevent the growth of large cities and factory towns in order to avoid conjestion and the consequent relief expenditure. A low transport rate would aid the lateral expansion of an industrial colony. The saving in relief expenditure would more than balance the lower-than-cost railway charges.

Any basis stands or falls on its practicability. The principle I have suggested is no less workable and definite than the current bases. The indeterminateness of prime costs with reference to any particular unit and the impossibility of accurately allocating overhead costs have been accepted in practice. In fact, 'particular railway charges need have no intimate connection with railway costs. At best, costs can give us *in the long run* the lower limit for rates *on the whole.* Similarly, the value of service principle is hazy and perhaps sets the upper limit, for the approximate market value of a commodity is taken as a rough guide of ability to bear. In Hadley's words, "It is a hard principle to apply intelligently." In practice, therefore, not only is this basis modified by factors such as cost of handling, speed of conveyance etc., but is applied arbitrarily, needing frequent changes. Similarly arbitrary is the practice of differential charging.

The Social Benefit of Service principle is no more indefinite. Some directives may, however, be suggested.

[31] *Report:* Para 115.

First, there is the need for the establishment of a *tribunal* like the Railway Rates Advisory Committee to investigate in detail and fix the Social Benefit of Service rates. This body would be similar to the Tariff Board or any other rate-fixing authority. It will probably have to be comparatively permanent in view of frequent adaptations needed in a dynamic society. The Board must be coordinated with the tariff fixing and similar agencies whose decisions affect economic development. Secondly, there must be a *classification of areas and of goods* as a part of regional planning so as to determine the degree of social benefit they confer and the necessary reduction in rates they need. The areas and goods must be on a scale of preference in the nation's interests, *i.e.* as areas and goods of different orders of importance, *e.g.* capital goods and consumption goods; among the latter, necessaries, comforts and luxuries; among necessaries, for instance, various grades can be worked out. Such a gradation is merely an adaptation of the principle of place values and of discrimination on the basis of future national interests. Thirdly, over-head charges should not be recovered from the traffic but must be made good from the general revenues. Additional net costs only should be realised and, even then, these costs must be interpreted as not referring to the whole of the expenses of providing a definite type of service but as only the addition to the prime costs of an already running service. Often, this type of net costs also may not be recovered completely, *e.g.* (1) in the case of basic industries, areas and commodities; (2) when our industries should compete successfully with foreign producers either in the internal or in the external markets; (3) where the constant or overhead costs are so low that relief from them would not be a great advantage, *i.e.*, where greater assistance can be given by not charging a part of even direct costs; (4) where non-economic considerations are involved in transportation; (5) where sufficient State help cannot be given in other ways, *e.g.*, where the tariff wall cannot be raised on account of trade treaties or political considerations.

These are, however, matters of detail to be worked out by expert bodies, once it is decided to get out of the rut of classical traditions.

SOME ASPECTS OF POST-WAR INDIAN CURRENCY

BY

M. S. ADISESHIAH, M.A., PH. D. (LOND)

Madras Christian College, Madras

The purpose of these notes is to attempt an analysis of some aspects of Indian Currency experience during the inter-war and war years, in order to gain some guidance on the many problems facing Indian Currency today and in the immediate future.

The Question of the Standard. Inter-war currency history affords some guidance for the future, in the matter of the Currency System that might be in the interests of the country. For this purpose, this period might be studied in three stages. During the years 1927-1931, India along with most other countries was on what has come to be called an International Standard. All countries adopted during this period some form of the International Gold Standard, the most popular form being the Gold Bullion Standard, with its concomitant of fixed exchanges in terms of Gold. This latter, fixed exchanges in terms of Gold, must thus be regarded as the characteristic of an International Standard. Under such conditions, we must examine how internal and international price and income equilibrium was attained for our country.

TABLE 1.

Year.	Exchange (1)	Commodity, Balance of Trade (in Crores of Rs.) (2)	General Price Index (1)	Prices of 7 Dom Goods (1)	Prices of (1)		Profits in (3)		Wages in (4)	
					Imp.	Exp.	Dom.	Exp. Industries	Dom.	Exp. Industries
			1914=100	1914=100	...		...		1913=100	
1927	1s. 6.	+54.3 (1)	146	178	100	100	1928=100		152	176
1928	1s. 6.66	+66·5	145	169	96.5	97.5	100	100	150	178
1929	1s. 6.05	+53.8	141	172	93.2	90.2	98·4	59.8	149	180
1930	1s. 6.	+37.1	117	153	80	71.5	122.1	14.9	137	169
1931	1s. 5.97	+22.2	96	107	71.7	59.2	91.2	19.8	116	138

(1) Index Number of Indian Prices 1861—1931. F. J. Atkinson &. D. B. Meek.

(2) India's Foreign and Seaborne Trade—Annual publications.

(3) Economic Adviser's Chain Index of Profits.

(4) Prices and Wages in India. Department of Statistics.

Table 1 shows how during this period of fixed exchanges—1s. 6d. gold—disequilibrium in the country's balance of payments was corrected and equilibrium attained. The commodity balance of trade figures do not of course give the whole picture in relation to our balance of payments accounts but in view of the unreliability of other calculations, they may be used as a rough guide. It is seen that the commodity balance position is steadily declining over the entire period, with the exception of the year 1928 and that accounts for the steadily declining price and income levels over this period. The correction of disequilibrium in our balance of payments as indicated by the commodity balance column, involved the following: 1. Very considerable changes in our general price structure. The greater the disequilibrium to be corrected the wider the changes had to be. Thus the price drop during the three years 1929, 1930 and 1931 was by something like 50 points. 2. It meant great changes in the prices of goods which enter our foreign trade transactions. That is the first and immediate effect that disequilibrium produces. Import prices during the period changed by 50 points, while export prices changed by about 50, 40 points. 3. The last two columns in the table show that incomes and profits in the exports trade varied widely over the whole period. In four years, profits in representative export industries fell by more than 120 points. In the same industries, the wage structure seems to have been reduced by more than forty points. Such changes in the profit-wage structure are the primary shifts that a return to equilibrium under any standard will involve. There is no escaping them. 4. But column 4 shows that as far as prices are concerned, these changes are not confined to the prices of foreign traded goods, but involve a general change in the price structure of the country. The prices of domestically traded goods also are involved in such wide and considerable price changes. These prices seem to have changed by more than 70 points and it may be noted that domestic price variations were much larger than export-import price changes. And the same is true of wages and profits in domestic goods industries. Profits seem to have changed relatively slowly over the whole period. But the change in wages in domestic trades was greater by more than ten points than in the export trades. No reference has been made to Bank and Bazaar rates during the period, because the statistics for the latter are not very reliable, but more because the place

of interest rate changes in international price equilibrium under an international standard is still a matter of controversy[1]. It is the view of the present writer that the relation between income price structures of countries on such a standard is so close and direct that changes in them are brought about directly and not *via* changes in discount rates, and that such changes as do occur in interest rates are consequences of shifts in money balances and not the motivating factor. A study of discount rate changes of the leading European and American Central Banks seems to bear out this view. It is, therefore, now possible to sum up the manner in which an international standard works, in view of the four conclusions suggested by Table 1. During the period when India was under an International Standard, international price equilibrium was attained only through constant and continuous changes in her income and price structure not only in the foreign trade industries but in the domestic trade industries as well. If it is desired to avoid such widespread shifts in prices and incomes in the country for the future, an international standard, *i.e.*, a fixed exchange rate in terms of gold must be ruled out.

We may now turn to a second period in India's inter-war currency experience. During the years 1922—1926, India was on, what may be termed, an Independent Standard the crucial test of such a standard being variable exchange rates. After 1922, the government, which was the Currency authority definitely abandoned the policy of maintaining a fixed exchange rate till 1926. And how then was international price equilibrium attained during this period.

[1]J. M. Keynes: *A Treatise on Money*, Vol. II, chap. 36. P. B. Whale: 'The Working of the Pre-war Gold Standard' ECONOMICA, Feb. 1937.

TABLE 2

Year.	Exchange. (1)	General prices. (1)	Commodity Balance. (crores of rupees) (3)	Domestic Prices. (2)	Export prices. (2)	Import prices. (2)	Wages. (4)	
							Export.	Dom.
1922	1s. 3.8	232	...	169	253	255	169	154
1923	1s. 3.7	215	110.5	162	221	255	200	154
1924	1s. 4.4	221	117.7	161	216	220	200	154
1925	1s. 5.5	227	119.1	161	211	200	210	154
1926	1s. 6.0	216	35.1	178	205	170	192	154

(1) Index Number of Indian Prices 1861—1931.
(2) Indian Foreign and Seaborne Trade.
(3) Economic Adviser's Chain Index of Profits.
(4) Prices and Wages in India.

The lessons that may be learnt from Table 2 have been examined in a previous paper (1). Hence only the most important implications need be recorded. Over this period, exchange rates were allowed to vary very widely, more out of necessity than out of deliberately planned policy. As a consequence, the establishment of equilibrium over the whole period, a period when the foreign trade balances seem to have fluctuated very considerably, involved considerable changes in export and import prices and the wage structure of the foreign trade industries. The former prices seem to have changed by 50 points and 80 points, while wages which are traditionally rigid, seem to have moved by more than 40 points in those industries. But general prices shifted only by 16 points over the whole period and domestic prices by the same degree, while the internal wage structure was completely unchanged on the evidence to hand. The conclusion on the matter seems to be that for a country like India with considerable international trade and accounts, the manner in which international price and income equilibrium is reached, is of crucial importance. For the period when an independent standard existed, such equilibrium was reached only by changes in prices and incomes in foreign trade industries, with little or no disturbance to the general income and price structure of the country. But there is another side to the story. In a previous paper (1) it was pointed out that freely fluctuating exchanges may themselves involve over-valuations and undervalution and thus add to the disequilibrating conditions, as they did in India. There is another factor too. If we had authentic and relevant employment figures, we would find that exchange variations as a means of adjusting our balance of payments call forth frequent movements of labour and other resources as between domestic trade industries and export trade industries. These constant shifts will involve frictional unemployment which is costly and unnecessary, since the temporary movement of resources will have to be reversed, once the short period balance of payment disequilibrium ceases. And further such freely fluctuating exchange rates involve traders and dealers in risks that they are unwilling and unable to shoulder after a certain point and thus lead to a considerable shrinkage in the volume and value of international trade of a country. As evidence of this we see that during this period when we had a fluctuating exchange rate, our international trade partly for that reason, was steadily shrinking. Thus in

evaluating our experience under an independent standard both sides must be borne in mind.

We are then left with a third period in our inter-war currency history, 1932-1939. During these years, India seems to have attempted to combine some of the advantages of a fixed exchange with those of a flexible exchange. Our exchange during this period was fixed in terms of the pound sterling, but the pound sterling itself varied at first very widely and later in a more controlled manner in relation to gold and other currencies, such as the dollar. We then occupied during these years an half way house between an international and an independent standard. How then was internal and international equilibrium attained for the country at this time?

TABLE 3

Year.	Exchange. (1)	General Price Index. (1)	Commodity Balance of Trade (crores of Rs.) (2)	Prices of Dom. Foreign Trade goods. (3)	Profits in Dom. Export trades. (4)	Wages in Dom. Export trade. (5)
		1914=100		1929=100		
1932	1s. 6	91	34	54 52	66.2 — 1.1	164 167
1933	1s. 6	87	3	53 55	90.3 93.9	164 172
1934	1s. 6	89	34	55 57	169 50.2	164 158
1935	1s. 6	91	23	60 64	192 63.5	164 142
1936	1s. 6	91	5	63 62	179 70.8	164 142
1937	1s. 6	102	51		211 108	
1938	1s. 6	95	8		316 73.9	
1939	1s. 6	108	10		289 96.2	

(1) World Economic Survey, published by League of Nations.
(2) Balances of Payments, published by League of Nations.
(3) India's Foreign and Seaborne Trade.
(4) Economic Adviser's Chain Index of Profits.
(5) Report on Enquiry into Agricultural Wages of Bombay Labour Office Index of Wages.

During this period exchange rates remained fixed but they remained fixed in terms of sterling only. When we examine the exchange value of the Rupee in relation to the U. S. dollar and compare it with the exchange value of the pound in relation to the U. S. dollar we find a different story.

TABLE 4

*Showing the exchange value of British and Indian currencies in relation to the U. S. dollar**

	1930	1932	1934	1936
Great Britain	100	67	102	101
India	100	68	102	101

This means that during the period the exchange value of the Rupee was by no means fixed in terms of other than British currency, and that our exchange moved in very close relation to the movements in the exchange value of the pound. This means that the exchange policy of our currency authorities during this period was determined by the needs and exigencies of British exchange and monetary requirements. As far as Britain was concerned, during this period she freed her currency from its gold basis, and controlled its value through an Exchange Equalisation Account. Hence our exchange position was a curious one. As far as Britain was concerned, our rate was fixed. As far as other currencies were concerned, our exchange rates were flexible, but their variability was determined by Britain's requirements, not ours. We should not be surprised, therefore, to find that during these years, our price and income movements combined the disadvantages of both the international and independent standards. And that is what Table 3 shows. Our general price index shows that prices had fallen to a very low level. Taking 1928 as a normal year and so as our base year, we find that British prices dropped by about 35%, while our prices during this period dropped by more than 40%. Again while British prices recovered by the end of this period by about 20%, ours did not rise by more than 6%. Our worsening commodity balance position during these years, with the exception of one year, meant, with fixed exchanges in terms

**International Currency Experience*, published by the League of Nations.

of British currency, a falling price level. And the range of variation in the general price index is very limited. This is a period when a more than 20 points shift was very desirable. The changes in the prices of home traded products and foreign trade products seem to have been about equally distributed as column 5 of Table 3 shows. The last two columns of the table show that while profits and wages in the domestic trades recovered rapidly or remained steady, those in exports industries continued to decline. Here the manner in which equilibrium was attained conformed to the independent standard pattern. Our conclusion with regard to this kind of mixed independent and international standard is that attainment of equilibrium under such conditions involve relative stability of exchanges and prices and shifting domestic incomes. For an economy established on the basis of a relatively full employment of resources, this may be a desirable accompaniment, but is no use for an expanding and developing economic structure, which, it is hoped, India will be in the immediate future. And so on the question of the standard we may conclude: Inter-war currency experience has shown that an international standard involving fixed exchange rates in terms of gold or of a foreign currency, is undesirable for our country because it will involve constant changes not only in the incomes and prices of internationally traded goods but also of the whole range of domestically traded commodities. Equally our currency experience has shown that freely fluctuating exchanges are undesirable because they mean trade risks, fluctuating foreign trade balances, and even the speculative movement of funds in and out of the country. Hence what is indicated is a quasi-independent standard with an exchange rate determined in relation to domestic and international price structure, and maintained with realtive stability either by means of an exchange fund in agreement with other countries, or through an international monetary fund as proposed at Bretonwoods. The considerations advanced so far seem to suggest that adherence to the Bretonwoods Plan is in the real interests of the country so far as the question of the standard is concerned.

The Question of the Exchange Rate. This raises the whole problem of the exchange rate that will have to be adopted for the present. For this purpose it is necessary to examine the exchange rates and the price-income structure of our country in relation to Britain and other countries during the war years,

TABLE 5

Year.	Exchange. (1)	Wholesale price index. (1)	Prices of. (1)		Wages. (2)	Profits. (3)	Cost of living. (1)	Wholesale Prices in Britain. (1)	Prices of Dom. goods in G. B. (1)	Cost of living in G. B. (1)
		Aug. 1939=100	Dom. Goods.	Exp. Goods.			1933-4 =100			
1939	1s. 6	126	127	130	232	96.2	108	103	97	100
1940	1s. 6	114	108	114	202	95.4	114	137	133	129
1941	1s. 6	137	124	137	218	141.3	128	153	146	130
1942	1s. 6	171	166	161	359	219.5	178	160	158	129
1943	1s. 6	236	268	236	362		237	164	160	
1944	1s. 6	243	265	243			247			
1945	1s. 6	247	273	249			225	170	160	131

(1) Monthly Bulletin of Statistics, League of Nations.
(2) Indian Labour Gazette, Jan. 1945.
(3) Economic Adviser's Chain Index.

The table shows that exchange rates over the whole period remained absolutely fixed, while wholesale prices rose from 100 in August 1939 to 247 in 1945. Column 3 shows that domestic prices rose 30 points more than the general price index, while according to column 5 export prices except for 1943 when there was a sudden rise, remained stationary with a strongly marked downward tendency. Wages during the period as evidenced by column 6 tended to rise but not as fast as prices, whereas profits seem to have risen faster than prices. These distortions in the price-income structure of the country are to be expected given the abnormal favourable trade balance and the artificially pegged exchange that prevailed. And now on the question of what should be the rate at which we are to start off now, various investigations must be undertaken. First we may compare wholesale price movements in India and Britain during the war years, as evidenced by columns 3 and 7. Indian prices have moved up from 100 to 247 while British prices have moved from 100 to 170 during the same period. On the basis of the relative rise in prices in Britain and India, our exchange rate must be brought down from 1s. 6d. to 11.6d. Next we may place alongside of Domestic price movements in India such price movements in Britain. These prices have moved up from 100 to 273 during the war years while British prices moved from 100 to 160. On this basis our exchange rate will have to be shifted to 9d. Since what we have now classified as Domestic products for Britain, are so by necessity rather than choice, as during war time, she has not been able to export those goods to us, they really represent her prices for her export goods too. Comparing the export prices in our two countries, we find that British prices have moved from 100 to 170, while Indian prices have moved from 100 to 249 during these years. This will require a change in our exchange rate from 1s. 6d. to 11.5d. We have one more indication of the trend that our exchange rate should take in the immediate present. Our cost of living index shows an upward movement by about 120 points for India and by 30 points for Britain. This means that the exchange rate will have to be round about 9d.

All these calculations of exchange rates give an appearance of exactness and quantitative finality, however, which is extremely misleading. What we are in this section attempting to do is to indicate the kind of exchange rate that we should adopt immediately after the war, as one of the essential conditions for the attainment of inter-

nal and international price and income equilibrium, and as a means of fitting into the structural conditions which will then prevail. That is essentail. There must be no return to an exchange rate simply because it is regarded as sanctified by time. That is exactly the kind of error that was made after the last war, by all countries, in returning to the Gold standard and at the pre-war rates. For that did not take into account the changed conditions and the basic disequilibria that were the economic and financial heritage of the war. We cannot, of course, forsee precisely the changes in the structural conditions that will come about in our economic system, now that the war is over, but certain negative conclusions can be drawn. The first is that there should be no commitment to fix our exchange rate in terms of another country's for all time or a long time. The alternative to this is the delinking of the rupee from its sterling relation. Second, the exchange rate cannot be arrived at the basis of the kind of statistics we have employed here. We have used here the usual indices of internal and foreign price, cost relations, profits, wages, shifts in terms of trade as indicated by export-import prices and the balance of trade figures. If it were possible, we could heighten the accuracy of our calculation by using employment and gold movement statistics. But even so there are two limiting factors to be borne in mind. The first is that during the war years when foreign imports into the country were reduced to negligible proportions, none of our indices and the quantities they express bear the kind of organic relation to similar indices in the other country which they do in normal times, when close international trade relations exist. Hence, exchange rates arrived at by comparing indices of price, income, cost, etc., as between Britain and India during the war years when normal trade relations between the two countries came practically to a standstill, have only a limited value. All that we can say is on the basis of the estimates we have undertaken, a Shilling Rupee, *i.e.*, the rupee with an exchange value fixed round about a shilling, seems indicated as a guide to immediate exchange policy. Secondly, even this conclusion is dependent on the course of prices, incomes and balance of trade position of the two countries in the future, and to the examination of some part of that we shall now turn.

The Question of Prices. We must begin with making a study of Indian prices during the war years and the distortions they have introduced into our economic structure.

TABLE 6

Year.	Wholesale Prices. (1)	Retail Prices. (1)	Prices. (2)		Terms of Trade. ...	Currency Issued. (3)	Investment and Savings. (4)	Britain Prices. (1)	U. S. Prices. (1)	Australia Prices. (1)
			Exp.	Imp.						
1939	126	127	130	131	100	238	135	103	100	100
1940	114	108	114	119	104	257	108	137	...	...
1941	137	124	137	154	112	410	95	153	114	117
1942	171	166	161	190	118	643	92	160	129	131
1943	236	268	236	251	107	882	118	164	135	137
1944	243	265	243	258	106	1009	157	170	136	140
1945	247	273	249	253	102	1153	207	...	...	...

(1) Monthly Bulletin of Statistics, League of Nations.
(2) India's Foreign and Seaborne Trade.
(3) Bulletins of the Reserve Bank of India.
(4) Financial Statistics Small Savings.

The Table shows that all prices rose steeply during this period. The currency cause is indicated in column 6 of the table. There we have given the amount of currency issued during the war years. The annual average of currency expansion in the pre-war period seems to have been about 20 crores and during the inter-war period about 15 crores. In normal times in a 7-year period an expansion of about 100 crores in the note currency should have taken place. Instead, an expansion of very nearly 1000 crores has taken place. The result is that prices rose by nearly 200 points which is three to five times the price rise that took place in Britain, U. S. and Australia, as indicated by the last three columns of the table. The result was that the relations between various prices have become distorted. In normal times these sectional prices bear some kind of organic relation to each other, moving together in harmony either in an upward or downward direction. During the war years the relation between wholesale prices and retail prices was a curious one. In periods of falling prices, retail prices fall less than wholesale and in periods of rising prices they rise faster. But here we find that during the first half retail prices are rising less than wholesale and later faster than those prices. These retail prices are calculated on the basis of controlled prices which were in force in the larger cities, to some extent. Most consumers had to purchase retail goods in non-urban areas from what is called the blackmarket. The writer of this article has kept a record of the real prices at which consumers in his area were purchasing three basic commodities, firewood, kerosine and cloth and the index numbers, compiled out of these records, show the following results :

TABLE 7

Year.	Index No. of prices of the three articles.	Year.	Index No. of prices of three goods.
1939	100	1943	370
1940	150	1944	430
1941	190	1945	500
1942	303		

If this table is any indication at all of the real state of retail prices, we can see that after 1942, retail prices bear no relation at all to wholesale prices. And the same conclusions are reached on the relation of whole prices to cost of living. Table 5 gives the cost of living index based on controlled prices. Hence, it shows a normal relation. Even so the margin of profitability to the retail trade is shown to be very small. In fact, however, if the cost of living index is based on such real estimates as those in Table 7, the distortion on the relation between the two prices can be seen. Anti-profiteering legislation could, of course, not even touch this situation. The war years thus have brought no great gains to primary producers as evidenced by the wholesale price index, while profiteering has been rampant in the retail trades. That legacy of war prices will have to be dealt with now. When we turn to the prices of internationally traded goods we find a similar disturbance. Export prices till 1942 are rising less quickly than import prices, and so the terms of trade figures are rising till that year. As a consequence the terms of trade move against the country till 1942. For a non-industrial country like India, exporting raw and semi-finished goods and importing finished products it is advantageous only when the terms of trade index exhibit a declining movement. But after 1942, the year of the Bengal Famine, our country's export-import contents changed, as the following table shows ;

TABLE 8*

Year.	Import raw material.	Manufactures.	% of raw material to manufactures imported.	Export raw material.	Manufactures.	% of raw material to manufactures.
	(Crores Rs.)	(Crores Rs.)		(Crores Rs.)	(Crores Rs.)	
1943	59	49	120%	89	95	89%
1944	71	44	175%	91	104	87%
1945	136	62	219%	94	112	84%

*India's Foreign Seaborne Trade, 1944-45.

This table shows clearly that during 1943-45, India became increasingly an importer of food and raw materials and an exporter of manufactured goods, reversing the trend of the previous four war years. Now the terms of trade index should show a rising tendency. On the other hand it is just during these years that the preceding trend is reversed and the index begins to decline. For the terms of trade to be in our favour, column 5 of Table 6 ought to be falling till 1942 and then rising. As it, however, shows the reverse trend, it is clear that the terms of trade during the whole period moved against the country. We are then left with the savings column, in Table 6. The note currency issued during the war years according to column 6, increased by 500%. Prices, however, rose only by about 250 to 300% during the same years, while wages rose according to Table 5 by about 180 to 220% during the same period. This 200% gap between currency issued on the one hand and prices and wages on the other, must be accounted for by the savings column. These are the small savings of the lower incomes groups and show a 170% increase. The working capital of co-operative companies has increased from 1 crore in 1939 to 1.2 crores.[2] Bank deposits also show a rise of about three to four times. But allowing for all these savings and investments, there is still a large part of the currency unaccounted for. That part must have found its way to military contracts investment, land and blackmarket trading and above all currency hoards, on none of which we have any statistical estimates. These funds will be released now that the war is over and will have to be taken into account in the price policy to be followed.

In the sphere of prices, therefore, the war years have produced a double distortion for our country: 1. Indian prices bear no relation to world prices. 2. The relationship between our sectional prices has been seriously disturbed. Our price policy must, thus, deal with these two issues in relation to the structural changes contemplated in the post-war period. These structural changes contemplated are a planned programme of industrialisation of the country. In the last resort, the instability of the volume of production and the balance of international payments in our country cannot be offset by the monetary measures that we have been discussing in our paper. The instabilities to

[2] *Statistics relating to Co-operative Movement in India.*

which a predominantly agricultural country is subject are the cause and consequence of (a) the chronic state of disguised unemployment that exists as evidenced by the fact that its volume of production could be produced by a much smaller labour force, than the existing labour supply which not finding other alternative remunerative fields of employment, engages itself in, and (b) the recurrent fall in export prices which spreading to all other prices, reduces incomes all round. Against these instabilities, the only structural change possible is industrialisation. That process has already started, as Table 8 shows, during the war years. We have now become a food and raw material importing country and manufactures exporting country. Our price policy must carry forward the industrialisation programmes that are being drawn up for the country. That means as far as general prices are concerned, there must be no further rise in prices which will distort our structure production, nor must there be a precipitous fall in prices. A steep fall in prices will further distort the relations between our sectional prices and make for business losses, interfering with our programme of industrialisation. So when we come to the question of the exact price height to be aimed at, the equilibrium relation between our prices and world prices must be considered. For this purpose, world prices fall into two categories. The first is the group of countries like U.S.A., U.K., Canada, Australia, where rigid controls have kept prices down as Table 6 shows. In these countries prices have moved from 30 to 60 points during all the war years. The disparity between their prices and ours is wide and can be corrected by a slow lowering in our prices and a rise in their prices which is bound to come now that controls are to be lifted. The second group of countries are the Middle and Far Eastern countries which have witnessed an even faster rise in prices than we have. In these countries a fall in prices will come about[3] and our price fall must not be so fast as to be out of step with these. It seems, therefore, clear that our price policy should bring about a slow and not too great a fall in prices. That means that our price movements should not be caused by monetary deflationary devices, but by increased investment and increased production that in the long run is the safest

[3]Turkey wholesale prices 601 in 1943 and 463 in 1944.
Iraq wholesale prices 692 in 1943 and 572 in 1944.

and most self-adjusting deflationary pressure. Such a policy will also fit into the structural changes we are contemplating in the matter of industrialising the country. Price deflation there must be, but its motive force should be a vigorous savings and investment programme.

THE POST-WAR MONETARY ISSUES IN INDIA

BY

GYAN CHAND

At a time when planning is *la'mode*, it is significant that there are practically no plans, official or non-official, for post-war monetary reconstruction. India is one of the forty-four nations which have under-written the Brettonwoods Scheme, and its official acceptance will follow when Great Britain has made up her mind with regard to it; as in spite of her misgivings most likely she shortly will under the pressing necessity of closing Anglo-American ranks against Soviet pressure. In theory India's participation in the new international monetary arrangements will not raise any issues of domestic reconstruction except the issue of the initial exchange ratio, but in these arrangements are implicit certain assumptions which have an important bearing on the internal monetary position of every country, and these require from our point of view fuller examination than they have received so far; but before long even the national aspect of the question will acquire great practical importance owing to the exigencies of a rapidly changing world situation and the need for making planned development of the country our supreme task that it really is. In this paper I propose to deal with some of these issues very briefly. It is not possible to give any clear-cut solution of the various problems that will arise. Uncertainty of the existing situation and inherent difficulties of the problems rule out such an attempt. All that can be attempted is a brief discussion of some of the more important and difficult points.

I

The first and the basic issue, which is now only of theoretical interest, is the question of the standard which this country should adopt. The issue is of theoretical interest only because the Gold Standard is now a thing of the past. It really ceased to be of practical importance when he important countries of the world acquired the practice of sterlizing gold—of making the internal currency and credit

policy independent of the inflow and outflow of gold. Great Britain has definitely declared her intention of not going back to the Gold Standard. She expects to insulate her internal economy by retaining the freedom to vary her rate of exchange within the limits of the Brettonwoods agreement when she accepts the latter formally. Most other countries are not in a position to take independent action owing to the economic limitations of their internal and international position and would find it necessary to retain this freedom to manage their credit and currency without according gold a determinant role in their monetary system. Gold, if it is given an arbitral position in a monetary system, means negation of autonomy and control of internal currency and credit position. For the U. S. A. the currency orthodoxy of her bankers makes it difficult to accept the *de facto* position that gold has only become a titular ruler even in the U. S. A. She has had since the last war to adopt the practice of gold sterlization more extensively than any other country, and force of circumstances will make it necessary for her to adhere in practice to the Roosevelt declaration to the International Monetary Conference according to which it was accepted that the sound internal economic system of a country is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations. This message broke the London Conference but contains the principle upon which the U. S. A. has been and is acting. Her surplus productive capacity, the output of which cannot be absorbed in domestic market, has made her an ardent advocate of multilateral trade and exchange stability; but equally ardent faith in free enterprize exposes her and through her the world to the risks of large-scale unemployment and economic dislocations against which the only weapon in her economic armoury is the balancing public-works expenditure. Other countries, like Great Britain, will have to protect themselves against this risk by making the principle enunciated by Roosevelt and accepted as valid by informed public opinion, the operating principle of that currency policy. Gold is now for U. S. A. particularly, as Dr. Dalton called it, an inherited superstition. The Gold Standard is now historically obsolete and neither the 20 billion worth of gold in Fort Knox nor the provision of the International Monetary Fund will give it anything like a decisive role in the monetary arrangements of nations and the world.

for us to demand and exercise full initiative in the matter and make the Rupee an autonomous unit among other national currencies.

III

It would, however, not be at all easy to decide how this initiative, once we acquire it, is to be exercised. Competitive depreciation of exchanges, multiple and discriminatory rates are an evil and it is pre-eminently desirable that they should not be revived. They were a part of the economic militancy and currency warfare of the inter-war period and can, of course, have no place in an economy based upon real international co-operation. It is, however, axiomatic that these practices cannot be superseded unless it is realized that the world prosperity is indivisible and no country can build her own prosperity on the poverty of other countries. Of this realization so far the countries in the forefront of world's affairs have given no convincing proof; and if they, in general and the U. S. A. in particular, retain their present attitude, there is no prospect of the main object of the I. M. F. being realized in practice. These practices were primarily adopted as measures of economic self-defence; and once the period of immediate stress is over and the countries now in dire straits recover partially from the effects of the war, they will be driven by the force of circumstances to re-lapse into the adoption of these measures of currency warfare if they lack the assurance of a durable economic peace and genuine goodwill among nations. India is in a particularly exposed position. She has to husband her limited resources to abolish incredible poverty at home and increase her relative economic strength in relation to other countries. For this she needs sheltered economy for a considerable length of time and has to be in a position to ward off attacks both of economic blizzards and animosities. It is the strong countries which have to realize the obligations of their strength and create an atmosphere of mutual trust and confidence. If they do not—and it looks as if they will not—discriminatory exchanges for India, as for all countries in relatively weak position, will become an inescapable, even though very unfortunate, necessity.

The immediate problem, however, for us, as for all countries is the problem of the selection of the standard rate. That this problem is, in the present context of

world affairs, insoluble can admit of no difference of opinion. The war disrupted world economy and world price level such as it was before the war. The price and cost structures of every country have been distorted by the war and war controls. Almost all countries have yet to decide the future of their economic system, its basic principle and their relations with other countries. And in spite of the Security Charter and its acceptance by 30 countries, world security is yet as problematical as ever. Under these circumstances choice of a rate, which can only be varied within the limits set in the Brettonwoods Scheme, is an impossible proposition. "It is obvious nonsense" in the words of the ECONOMIST (July 21, 1945 p. 76), "to expect any country to commit itself this year to put a par value for its currency, which cannot thereafter be changed, without the consent of the Fund by no more than 10 p. c. and this provision will have to be amended if the Fund is to work at all." If the selection of parity rate is 'obvious nonsense' even for Great Britain, it is much more so for a country like ours which can only bank on the future and has yet to achieve the status of a free nation. The present rate has by the course of events become purely fortuitous and we do not yet know whether in the uncertainties ahead it will function as a shock absorber or transmitter. We have to be prepared for all contingencies and be ready to use quantitative controls in our relations with all countries when the impact of the outside forces is found by experience to be too much for us. Merely variations in the rates of exchange would, in all likelihood, not be sufficient for self-protection. The use of these controls, their intensity and purpose, would, of course, be conditioned by the complex of world factors. The problem for us will not be merely whether we should maintain the exchange-rate, raise or reduce it, but how to prevent what may be for us uncontrollable world events from producing effects which will retard our economic recovery or unduly limit our freedom of action even within our own country. This end cannot be achieved merely by variations of exchanges. It will need prompt and adequate action to counter the disturbing effects of complex situations. Variations in exchange rates may, probably will, be necessary in certain circumstances. But they will not be enough. We have to use other means if we are to have reasonable stability in this extremely unstable world.

When the transition period of unknown and unknowable duration is over, we will have to face the problem of choosing our standard rate. Theoretically it is possible to say that it should be the equilibrium rate—the rate which makes exchange a neutral factor in international trade and enables each country to realisè the benefits of international specialization based upon basic difference of cost-absolute and relative in production. The equilibrium rate can, however,it is well-known, be much more easily defined than fixed. The Final Act of the United Nations Monetary and Financial Conference permits approved changes in exchange rate only to correct a state of 'fundamental disequilibrium' without defining or stating the criteria for defining this state. Is the state of fundamental disequilibrium indicated by differences in price levels as compared with price levels of some basic year, by differences in the prices of internationally traded goods of domestic prices or wage or cost structures or state of employment of the countries concerned ? How are we to state that the deviations from the position of equilibrium have occurred and how to measure their extent ? These are, as students of monetary theory know still some of the unanswered questions of Economics in spite of the voluminous output of literature on the subject.

They are unanswered even if a regime of free economy is assumed as an hypothesis for the analysis of the state of equilibrium and deviations from it. But if it has to be assumed that we are in for a regime of economies controlled in various and varying degrees—and all will agree that it is a reasonable assumption—our whole apparatus of analysis for ascertaining and assessing the state of equilibrium or disequilibrium will have to be changed and we will have to base our arguments on an entirely different premises if we are to evolve valid precepts for theoretical and practical purposes. Old norms are hardly of any use for the purposes and new norms, their shape and content, are at present purely speculative. Not only is this a matter which calls for further research but research with new apparatus and on new premises which yet cannot be clearly stated. We are passing through twilight period of currency history which is of course due to the old world being dead and the new one yet waiting to be born. To-day the pendulum is swinging without our knowing the position of rest to which it is tending to return. Really as yet there is none and cannot be

any position of rest and therefore the swingings have neither any known rhythm or amplitude. The occasion calls for thinking it all over again. All that has been said and is being said about planning in this country does mean that ours is to be a controlled economy and the equilibrium rate, when it has to be fixed, will have to fit into the general equilibrium which we seek and establish here.

The considerations referred to in the two preceding paragraphs are somewhat of remote interest for us at present in spite of the fact that they raise very important theoretical issues; but the connected question of exchange control has immediate importance. During the war exchange restrictions have been exercised on non-Empire currencies and the Empire has been treated as a single currency unit. This control has to be continued for some time but does not touch the wider question of exchange control. Exchange control as a measure of trade regulation was grossly abused before the war and the I. M. F. agreement aims at its abolition after the transition period. It permits exchange restrictions on capital movements but proposes to remove them altogether on current transactions. If India can have state monopoly of trade, exchange control would become unnecessary. Soviet Russia can consent to its abolition because it does not need it. Inter-national trade being state monopoly, control of exports and imports is complete and prices at which they can sell and buy in foreign countries determine their terms of trade. But very few countries are likely to set up state monopoly of trade and would need comprehensive exchange control as instrument of planning for which regulation of trade is indispensable. It is also very unlikely that India will introduce state monopoly of international trade, though bulk sales and purchases through specially constituted public corporations would be necessary in the case of certain commodities and countries. It would, therefore, be essential for us to centralize exchange control and allocate foreign funds that are at our disposal and will be acquired through both current and capital transactions on priority basis determined by public authority. Exchange control has been and can be used as a method of discriminating monopoly. The way to prevent its use for this purpose is true international co-operation and supervision of the use of foreign funds by all countries. Free foreign exchange market is essential for free trade of the 19th century conception, but is incompatible with planning national

and international. Moreover, if control of capital movements, both short and long term, is permitted, it will entail control of current transaction as well. Capital and current assets and liabilities are interchangeable and the former cannot be controlled without control of the latter.

IV

The internal currency problems of India are of more pressing importance and require early attention. The present level of prices cannot be maintained and fall of prices is necessary and inevitable. The downward course has, it is generally realised, to be controlled. For a year or possibly two the present shortages will persist and the danger of too sudden a fall of prices is not likely to arise. The level at which prices are to be stabilized cannot be pre-determined. Anywhere between 30 to 50 per cent above the pre-war level can be suggested, but no theoretical or statistical justification can be given in support of this or any other suggestion. The extent to which incomes have adjusted themselves to prices is not known, but there is a wide field over which adjustment is incomplete and hence the need for what is called planned retreat from inflationary prices. But apart from the difficulty of deciding the point at which the retreat is to be arrested, it is not easy to suggest measures as to how it is to be planned. The war level of employment and expenditure cannot be maintained without compensatory increase in the economic development of the country which on any realistic reckoning is not practicable for the next two or three years. The Reserve Bank, as our central currency authority, is in no position to regulate, control and promote the level of production, investment and expenditure. Even in countries where capital and money markets are much better organized, central banks have to operate in respect of stabilization of prices and employment under serious limitations. In India our central bank is without the power or instrument to make its policy effective even if a policy adequate to the needs of the situation can be clearly formulated, which in the existing confusion of ends and purposes is far from easy. Price stabilization in the immediate future is not a monetary problem and, as stated further down, will not be when long term policies can be formed and carried out. Negatively of course the Reserve Bank can help by stopping to prevent further

rise of price inflation. But main reliance for moderating the downward trend of prices has to be put on the maintenance of physical controls over production, procurement, and distribution of goods as far as possible.

Long-term changes have, however, to be prepared for and the first point which compels attention is the need for making the Reserve Bank a dependable instrument of national policy. According to Sir Basil Blacket the Reserve Bank was intended "to assist the gradual silent revolution in India's economic life which promises to bring higher opportunities of life and higher standard of living to every one in the country." The Reserve Bank has brought certain advantages in the working of our currency syetem, but no one would claim for it that it has worked or assisted in working a silent revolution in our economic life or brought higher standard of living to our people; and it is very doubtful whether even a reconstituted Reserve Bank would by itself be capable of producing these results. But all the same it has, in its functions and working, to be reconstituted to produce better results. I do not propose to say anything about its constitutional aspects, but a few general observations about its functional aspects can be made. Paper currency is and will remain our most important currency and it has to be inconvertible paper currency. If this is to be so, very radical modifications are called for in the working of this system. In the first place our system, like all inconvertible systems, does not require any statutory provisions regarding the maintenance of reserves—as a matter of fact any reserve at all—metallic, foreign exchange reserves and of securities, short and long dated. We will need reserves in foreign credit or currency for meeting negative international balances, but that has nothing to do with paper currency for internal purposes. The present provisions regarding reserves in this country as in all others are survivals from the pre-1914 period and have no relation to the facts or needs of to-day. Paper currency can and should become credit instrument pure and simple without any backing of gold, foreign reserve or securities. Methods have to be developed by which issues of excessive currency can be prevented, its deficiency ascertained and removed, but reserves have no utility for this purpose and are not a safeguard against inflation or deflation. If a fixed limit is set to the maximum note issue and revised according to needs and circumstances we can,

given a sound currency policy, have a sound currency system. Discounting of bills is a method for knowing, measuring and providing for the current needs of the community for currency, but the amount of currency required by it can be measured by the availability of short-term self-liquidating bills and other criteria for the purpose have to be devised and adopted. Section 33 and 34 of the Reserve Bank Act are quite out of date and have to be replaced by a section prescribing the limit of note issue. They create confusion, are based on assumptions which no longer hold good, create a sense of security which is illusory and are an unnecessary hinderance in the way of the adoption of a sound currency policy.

We shall, however, need foreign reserves for meeting our current international obligations. Their amount has, as already stated, no connection with the amount of notes issued or in circulation and has to be calculated independently. The amount in future would, of course, depend upon the volume and value of exports and imports, visible and invisible and their fluctuations. But if we take for granted our quota of nearly £100 millions to be contributed to the I.M.F., of which only 25 p. c. has to be paid in gold and the rest in our own currency and entitles us to draw international credit up to the limit of £125 millions would be adequate for our needs, it would not be necessary for us to maintain any reserve outside the I.M.F. when the latter becomes a good working proposition. We have at present more than £33 million worth of gold at the old par and can easily join the Fund if its credit facilities are fully available for us and dispense with the needs of having a separate foreign exchange reserve. In 1939-40, it has to be remembered our total reserve, including gold and sterling securities in the Issue and Banking Departments, amounted to about £100 millions, and though the 1939-40 assets are no measure of our future needs, it would probably be safe to say that we would not run any great risk in relying mainly upon the I.M.F. credit for meeting our possible foreign liabilities on current account. Until the I.M.F. is brought into operation, we can create our own Stabilization Fund of £100 millions outside the currency reserve and rationalize and simplify our Paper Currency System on the lines indicated in the preceding paragraph. It was the maintenance of our stabilization fund as a part of Paper Currency Reserve which made it possible for Government to convert it into

an instrument of inflationary war finance, accumulate sterling balance in London and issue paper currency in India. This was an illicit use of the paper currency reserve and has been made possible within the provision of the law by linking two separate functions, *viz.* stabilization of exchange and issue of currency, by making them parts of the paper currency system. Now they have to be made distinct in law as they are distinct in fact and similar confusion avoided in future.

These are important changes, but in themselves do not carry any guarantee that a sound currency policy would be adopted by the Reserve Bank. It issues notes, maintains public balances, provides remittance facilities, manages public debts, has centralized a portion of cash liquid funds of the commercial banks, can give short-term loans to them and is empowered to control the credit system of the country through the operation of Bank Rate and purchase of securities, *i.e.* it has all the powers and functions of a central bank in any country of the world. And yet it is, as is well known, in no position to control the credit policy or the amount of credit in the country. The indigenous bankers, who are supposed to supply over 95 p. c. of the credit needs of the country, are still outside its orbit. Its loans and advances and discounts to scheduled banks have always been negligible.[1] For agricultural credit it has not been able to do anything except issuing its statutory report, some bulletins and a report on the working of the co-operative movement. According to its own admission "although the Reserve Bank has been entrusted with most of the powers generally given to a central bank, its actual control

[1]The following table gives the total assets of the Banking Department and the amount of bills purchased and discounted since 1938-39 :—

Year	Total Assets lacs	Bills purchased and discounted lacs
1938-39	43,12	1,53
1939-40	44,25	2,87
1940-41	68,71	.97
1941-42	73,55	.27
1942-43	99,66	.68
1943-44	134,63	.91
1944-45	307,38	1,46

is limited by the peculiar character of the Indian monetary and banking system."[2] Its control is not limited but practically non-existent. The Bank-Rate, in all important countries has become a symbol of low interest rates and ceased to be an instrument of control. The commercial banks have even able to negate the central bank policy by their rediscount operations and excess reserves[3] over the statutory requirements and the central banks have had to adopt direct methods of credit control. In India also the Bank-Rate has been fixed and low for many years; but even if it had not been, it would not have been effective as a method of control and no other method has been thought of or introduced. As things are, the Reserve Bank can neither determine the amount of credit nor its use and it cannot control or regulate the policy and practice of the commercial banks. As an organ of credit control and of a unified monetary policy for the country it has not performed and cannot perform any function whatsoever.

All this is admitted, but what is not realised is that this state of things calls for revision of theory and practice in the light of experience and needs, and discovery of

[2] *Functions and Working of Reserve Bank of India*, p. 50.

[3] In India also the Commercial Banks have maintained reserves well above their statutory minimum reserve as shown by the subjoined table :—

Year	Statutory minimum (crores)	Actual Reserves (crores)
1938-39	8.64	15.94
1939-40	8.92	17.43
1940-41	10.24	36.42
1941-42	12.65	36.63
1942-43	17.34	55.73
1943-44	25.69	63.63
1944-45	33.20	89.25

In view of these facts it is not at all surprising that "the scheduled banks are not" in the words of the Reserve Bank, "large borrowers from the Reserve Bank." Their funds have been more than ample for their outlets for investments and have been largely used for the purchase of Government securities.

methods by which a unified credit and currency policy can be introduced and interwoven with the new economic policy which the nation may choose to adopt to forge ahead for the economic develpment of the country. India is as yet in spite of Reserve Bank having been in operation for a decade, without a central currency and credit authority—an instrument which can really "assist silent economic revolution in Indian economic life which should "promise to bring higher opportunities of life and high standards of living in the country." This constructive role the Reserve Bank can only play by showing much greater enterprize than it has done so far and by thinking in terms of the facts and needs of to-day and a good long time ahead and not in terms of currency and banking theory and practice of the pre-1914 times—now a by-gone age. It has to become an active organ of national life and not merely a passive instrument for the discharge of its statutory responsibility of providing notes in exchange for sterling securities and purchasing sterling in India to place the Secretary of State in funds. For these two functions only it was hardly necessary to constitute the Reserve Bank with all the fanfare which went with its inauguration.

It is obviously not possible to indicate in this paper the ways and means of achieving this result. It should be clear that a controlled and planned economy must need a very different currency and credit system from a system found suitable and adequate for a free competitive economy, and its tenets and technique have to be changed to suit the social purpose which it is intended to serve and promote. The course of events has made most of the orthodox principles of currency and credit policy inapplicable under contemporary conditions. Not only has Bank Rate lost its utility and importance as a means of credit control and has no relation to the varying money market rates, but balance of payments, exchange-rate variations, changes in stock of gold or reserves of the banking department of central banks and of the commercial banks, which now consist entirely of paper currency notes, have also ceased to be decisive considerations in the regulation of credit policy or expansion or contraction of credit. Price level, it is now realized, depends upon the variations of total national income more than upon those of quantity of money, and it, therefore, follows that price stability can be

achieved better by stabilization of income through a policy of investment control and full employment than by variations of the amount of currency and credit in circulation through methods of doubtful efficacy. And finally experience of the countries, which have tried complete or partial planning before the war and organizing total effort during the war, has indicated that in spite of the fact that new methods of allocation of credit and capital funds and of price control have been introduced under the stress of emergencies and with diffidence incidental to the use of new path-breaking devices and, therefore, tentatively and empirically, they have yielded good results, made it possible to mobilize and apply enormous real savings for capital development and war and yet to maintain reasonable standards of living in order that health and efficiency of the people may remain unimpaired by the strenuous efforts which they were called upon to make for great ends.

These are developments of great significance and have to be taken into account by us in our currency and credit plans that will have to be introduced and developed for carrying out our national plans. In a mixed economy, like the one which we are likely to have, in which public enterprize will have to be combined with controlled private enterprize with all important levers of economic life in the hands of public authorities, it would be essential to re-organize our currency and credit system in order that this economy may come into working order and acquire impetus from within. These developments open new possibilities but do not contain their own charts according to which we will have to steer our course or master the new situations as and when they arise. There is need now for advanced thinking and careful analysis of available experience before we set out on the great economic adventure of the nation for which the word planning has become current, and there will be need for continuous re-adjustment, flexibility of thought and action and, therefore, application of a policy of emergent construction in currency as in all other matters as we go ahead. In all this the one essential point will have, however, to be borne in mind. Currency and credit are secondary factors. They are important but not the basic facts of economic life. War finance is, we now have learnt, not a matter of finding money but of devising means for the application of a portion of available and potential human and material resources

for war. Development finance must have a similar calculus and be primarily conceived in terms of how the available and potential resources can be fully and purposefully utilized for maximizing economic welfare. Currency and credit are the sluices by which water is channelized and its flow regulated. Sluices do not and cannot determine the volume of water and its distribution. They can be constructed where we need them and used with a purpose. In other words, it is the system of production which must determine the structure of a currency and credit system, its functions and working and not *vice-versa*. We must devise a credit and currency system to fit into the plan which we have in view and not temper or hold up the plan to suit the existing or any other currency system. This may sound platitudinous but is so often overlooked that it is necessary to emphasize its importance and indicate its implications. It is when this cardinal fact is lost sight of that we either get currency cranks or currency pundits. The latter use the mysteries of their doctrines to confound the non-initiates and the former promise a short and painless cut to economic salvation through the application of their magic formulas. For our currency plans we need neither pundits nor cranks, but earnest and clear-sighted students of the subject who know currency and credit well-enough to understand their right use and limitations and are prepared to use their knowledge for taking the present tide in the affairs of men for a real big stride forward.

RAIL ROAD COORDINATION WITH SPECIAL REFERENCE TO RATES POLICY

BY

D. R. GADGIL

The coordination of Road and Rail transport constitutes, in the post-war period, the most important transport question of countrywide interest in India. In transport coordination the crucial problem is that of the division of traffic between the different agencies. Such division might be brought about by voluntary agreement or externally imposed regulation allotting different categories of traffic to different transport agencies; or alternatively by a regulation of the rates structure which evens out the conditions of competition between the various agencies and then leaves the traffic to flow into such channels as it likes. A major difficulty in the way of an a priori distribution of traffic categories is the lack of adequate experience and data. There is also the danger that this method would result in rigidifying distribution of transport over long periods and make it impossible for the transport system and the country at large to get the full benefit of continuous technical advance. Controversies regarding the limits of zoning and the appropriate distances by which passenger or goods traffic could be economically hauled by road illustrate the nature of the problem of distribution. The resolution of such problems will depend on a variety of factors differing widely from tract to tract such as the development of the road system, the nature of traffic originating in the tract, the alignment of railway tract, etc. A proper appraisal requires full attention being paid to each local circumstance. For example, the railway tract from Poona to Karad was at the time of its construction so unsuitably placed in relation to all the important centres of population that even though it appears that in this region road haulage runs parallel to the railway the economy and convenience of the two differ very greatly. Even with ample data covering the working of the competitive system over a long period complete agreement would be difficult to obtain. Any general answers with the present data are out of question in this country. The present data are in most

respects extremely inadequate. The competition between rail and road especially in regard to goods traffic had, by 1940, not continued over a long period ; and the available information relating to actual diversion of traffic during that period is very meagre. Road hauliers were for the most part unorganized and unregulated and did not make any regular statistical returns or even compile for their own purposes, as in some other countries, any authentic information. The statistics of rail-borne trade were compiled in such a manner as to make it very difficult to assess therefrom the extent of the effect on rail-transport of the competition of roads. The *ad hoc* enquiries conducted by railway authorities in particulár cases of apparent diversion were always departmental affairs with very limited objectives. Their results even if generally available would, therefore, be of doubtful validity for general application. The poor state of railway finances during the early thirties was the result mainly of the impact of the agricultural depression and the cry regarding the effects of road competition was then definitely premature. In India it is thus impossible to establish an *a priori* division of categories of traffic between various transport agencies. This is entirely apart from the consideration that it would be illegitimate to project into a changing future results obtained from the past.

If this is accepted, the problem of the relation of railway rates to road rates becomes of the greatest importance for the future. The structure of railway rates and the main lines of its evolution are familiar to all. Railway rates in most countries have been built up on the principle of "what the traffic will bear". It is usually contended that on account of the large proportion of overhead costs in railway operation, the making up a rate on "the cost of service" principle is well-nigh impossible. The application in railway rates of the principle of what the traffic will bear leads to great importance being attached to value in relation to bulk of the commodities transported and to charging a differential rate for the same service to different classes of commodities. It is clear that the whole of this structure of railway rates is sustained because of the fact of monopoly. Railways till the advent of mechanical road transport enjoyed a practical monopoly of all inland bulk trade in most countries over any distance. The monopoly was modified only by the presence in particular instances

of water transport. This monopoly has been, however, broken by road carriers since 1920 and the railway rates structure has been modified in consequence. For the most part the result has been not so much a fundamental change in the structure of rates as an increase in the importance of special or exceptional rates in the structure. The emergence of exceptional rates, which are in the nature of special category rates (the category being defined in terms of volume or of nature of commodity or of movement between specific points, etc.) has followed from the monopolistic position of railways and the principle of what the traffic will bear Before the advent of competitive road transport, the exceptional rates were chiefly used as an instrument of stimulating particular categories of traffic. They have since become in the main a competitive weapon. The principle of what the traffic will bear necessarily involves attention being paid in rate making to each particular regarding the traffic carried. Logically, it should lead, among other things, to discrimination between individual consignors also. Governmental regulation has, however, everywhere allowed discrimination between places, commodities etc. but has prevented by regulation discrimination in the same type of traffic as between individuals. The power to quote special rates when the conditions with which the special rate is hedged about can be very detailed, and might in many cases amount to a rate for a consignor even though the special rate is legally generalised in the rate books of the company. After the beginning of competition special rates have ceased to have their old significance and are no longer to the same extent rates which are made possible by special facilities or economies of transport but are in the main rates which are the reflex of road transport conditions. Even before the advent of road competition the rail-rates structure was always highly complicated and was as in the main an entirely empirical business. Today the element of chaos in it has further increased.

When one turns to the road-rates structure one finds that it is yet for all practical purposes non-existent. However certain important features of the circumstances under which road rates are charged deserve attention. The road haulier has never from the beginning been a monopolist. He has always had to carry traffic in competition with other means of transport. Therefore his rates could not

be based on the principle of what the traffic will bear but had to look more specifically to his own costs of service. There has been in consequence little discrimination in relation to the value of goods carried in road transport rates. The classes of goods attracted to road transport have been chiefly from among those which had been classified specially high in the railway-rates structure. As the railways made the more costly goods bear a specially high rate and as the road hauliers were not a position to discriminate between goods according to their values these goods were first attracted to road transport. From the point of view of railway transport this has been called skimming the cream off the traffic. Secondly, the unit of operation in road traffic has always been small, especially in India. This has meant that most road rates are rates quoted for particular consignors for particular trips rather than rates worked up into a generalised schedule. The influence of the return empty trip has been specially large in road rates and this has further prevented the emergence of systematic and uniform rates. Thirdly, the possibility of the larger consignors carrying their own traffic has been always pressing in road transport. This has been another influence preventing discrimination and keeping road rates within the ordinary competitive sphere.

The main question to be tackled as regards the future is the effect of road competition on the structure and level of railway rates. Any continuous extension of the special rate system must ultimately undermine the differential structure of rail-rates; because the sphere of special rates will spread with every further extension of road transport and with each further class of commodity carried by road transport. Quoting a special rate has ordinarily the effect of negativing or reducing substantially the discriminating character of the rail-rates structure. The large differences between the rates for a variety of classes of goods cannot thus be maintained for long and railway rates from being monopolistically conceived must be conceived as being framed in a competitive regime. This possibility is usually sought to be avoided on the following grounds:—It is pointed out that the absence of discrimination means not a leveling up but leveling down of the rates structure and this leads to an undermining of the financial position of railways. The only way in which in competition with road transport the railways could recoup themselves

would by increasing somewhat the charges on classes of commodities which are carried at a specially low rates by railways today. It is, however, said that these charges cannot be raised because these classes of goods are today bearing all that they can. Further, from the point of view of national economy any increase in these rates must lead to a disturbance in the balance of industrial or agricultural economy. A substantial increase in the price of coal, for example, following upon the increase of transport charges must bear harshly on industries in many parts of India. The case for the maintenance of the status quo is thus strongly supported with reasons of the solvency of the state system of railways and the continued cheap transport of basic commodities like coal. The continuance of the existing state of affairs, however, depends entirely on the ability to neutralise the effect of road transportation on railway rates. This can be done by (i) preventing the growth of road transport or (ii) preventing road hauliers from competing with railway transport, or (iii) bringing road hauliers and railway transport in a single system of monopoly by which instead of the railway rates structure being affected by road transport, that structure is itself carried on and applied to the operation of transportation by roads. Of these alternatives the first is obviously out of account. In the thirties Indian railway authorities were chiefly inclined to explore the second method. The interest of provincial governments in road development and the operation of road transport and the general public feeling on the question, however, showed that this approach could not be successfully pursued. It, therefore, appears that it is the third method which is now being contemplated by the government of India and the railway authorities.

The arguments in favour of the status quo need to be examined in some detail before the new policy can obtain support. The financial argument which is the most important rests on what happened to railway finances during the thirties and on the experience of some other countries. The distressed condition of Indian railway finance in the early thirties was almost entirely due to the impact of the depression. Competition of road transport in goods traffic was then insignificant and in passenger transport also the total effect was small. What the effects of renewed competition in the immediate future will be is difficult to lay

down definitely. That the sphere of road transport operation will be greatly widened is undoubted. It is not equally clear that the effect on railway will be adverse. The rail-road relation is not completely or even, in the main, competitive. It is in a large measure also complementary. This is specially true in a country like India where rail transport has not been intensively developed in most parts. It has been recognised that a considerable proportion of the growth of road transport helps instead of harming railways. Even on competitive routes road transport touches only particular section of the traffic and even of particular categories it is rarely the whole or bulk of the traffic that is withdrawn. On the other hand road transport creates new traffic for the railways. In India neither railway development nor traffic development have reached a saturation point. Indeed, any considerable growth of economic activity such as is envisaged in future economic planning must increase greatly the volume of business available to railways. These considerations indicate that it is at least not proved that railway finances will necessarily suffer by the development of road competition on fair terms.

The second main argument in favour of the status quo is the effect of the competition on the structure of railway rates. Must it lead to a substantial increase in the rates charged for traffic in the lower classes? The volume of traffic carried in these classes is large but the income derived by the railways from them is proportionately much smaller. It would, therefore, be not possible for railways to better their financial position to a significant degree by increasing the charges on this traffic. For financial solvency, railways must retain the bulk of their present volume of traffic in the higher rated classes also. Nothing in the position of railways in other countries indicates that it will be impossible, with proper organization, to do so. In countries where competitive railway construction has proceeded far the elimination of some duplication and the closure of some branch lines are the only steps that have been felt to be necessary. The differentiation between different categories of rates will be no doubt somewhat lessened by road competition and the power to discriminate indiscriminately will no longer rest with the railways. But this instead of being a drawback must be considered as the greatest advantage, from the national point of view, of road competition. In essence then the case for the eliminations of the

competitive factor from road transport depends on its possible financial effects on railways. If the competition of roads is placed on a fair level there is nothing to suggest that the railways, though under compulsion of organising their business better and rationalising their rates, will necessarily suffer. On the other hand, the perpetuation of the status quo is highly undesirable from other points of view.

The method of coordinating road and rail transport by means of a monopoly effectively makes it impossible for all times to reap the practical benefits of the competition of road transport. The existence of a monopoly generally leads to a discriminatory and at times to an irrational structure of rates. The plea that a particular bit of traffic was easy to carry could be made to cover all kinds of discrimination and except through the cumbrous machinery of a rates tribunal nothing could be done to check the vagaries of the system. Whereas, in U.K. or U.S.A., the railway systems themselves were partially competitive with each other the worst features of the monopolistic system did not appear. In India, on the other hand, the monopoly of the individual railways was unchallenged and the railway rates structure has been more chaotic and arbitrary than elsewhere. For example, in passenger transport the comforts of the first and second class traveller have always been largely subsidised from the earnings on third class traffic. It is a fact that attention to the convenience of the third class traveller began to be paid only after the emergence of road competition. Even today the balance is still heavily against the third class traveller and it is symptomatic of what will happen in a monopoly that special upper class rates which do not fully pay for their extra comfort are being introduced on motor transport in the coordinated services. In the face of road competition the railways have not made any attempts to introduce order in their rates structure but are merely exploring means by which an adjustment could be postponed indefinitely. In case a road-rail monopoly is achieved no inducement will be left to railway authorities to try and rationalise their rates structure. The road operators will no longer be interested in quoting competitive rates and there will merely be an agreed division of the traffic between the two agencies. The only continuous adjustment to change that can come about in the circumstances would be owing to any

action taken by the monopolistic organizations or by government on their own account. In the light of past experience it is too much to expect a great deal in these circumstances.

An important consideration might be put forward to reinforce the contention that the attempt to neutralise the impact of road competition on railway rates is contrary to long run interests of the country. It is an old complaint against Indian railways that their rates policy encouraged concentration of trade and industry at ports and at a few important inland centres and generally discouraged the dispersal of industrial or trading activity through the country. The system of special rates in existence today in relation, for example, to the centres of textile industry exemplifies the force of this contention. Railway rates thus are an important influence in the shaping of the distribution of industrial population within the country. In recent years it has been increasingly recognized that concentration of economic activity in specific localities and regions has gone too far in India and that a wider dispersal of the activity must necessarily be brought about. To achieve this aim a suitable adaptation of the rates policy will also be necessary. The highly advantageous special rates for certain localities must necessarily be abandoned in favour of a more equitable system as between place and place. The competition of road transport was naturally and increasingly bringing such a system about and it is agreed that the development of motor transport is generally favourable to a wide dispersal of economic activity. The formation of a joint road-rail monopoly will naturally put a stop to further progress in this direction. Railways being the more highly developed interest in this combine the maintenance of the structure of their rates and their point of view will naturally dominate the policy of the monopoly. Road transport will be developed mainly as ancillary to railway transport. No doubt, general protestations will be made about looking to the interest of the country as a whole but the actual effect will always be that of continuing the traditional railway policy and denying the country the potential benefits of full development of road transport.

A further subsidiary argument may be advanced as against the policy of a road-rail monopoly. There is little doubt that the development of road transport has led to a growth of small business to a considerable extent in India,

Small businesses in cut-throat competition with each other are undoubtedly wasteful. Small businesses in a regulatory regime are, on the other hand, a development much to be welcomed. This is so especially in a country where there is a rapid tendency for economic power to be concentrated in an extremely small number of persons or corporation. The creation of a road-rail monopoly at this stage in India will drive out of road transport and by an inevitable tendency from amongst all allied activity small business men and create, on the one hand, a few privileged positions of extreme profit and, on the other, a mass of wage earners.

In the absence of a monopoly the conditions brought about by a development of road transport and the steps necessary to regulate this development may be summarised as follows. The goods rates structure of road transport has yet to be built into an integrated system. It is, however, obvious that such a structure must in certain essentials differ from the structure of railway rates. The smaller unit of operation and the smaller sphere and volume of operation will make it difficult for a full working out of the principle of what the traffic will bear in road transport rates. The fact that the permanent way is provided for by another agency and that its cost to the operator becomes closely related to use, also make it unnecessary for the road operator to resort to the principle of what the traffic will bear. The road rates structure is also less affected by permanent overhead costs at terminal points. Therefore it will tend to be differentiated from the railway rates structure in, at least, two important respects. (*i*) The economies of longer haul will not be specially marked in it and the rates structure need not be as telescopic as on railways and (*ii*) the differences in charges between types of commodities according to their values and bulk need not be wide and marked as in railway rates. Because of the first, road transport will favour dispersion of economic activity as against its concentration which is encouraged by railway rates. Secondly road transport will not help the carriage of cheap and bulky goods over long distances for working up or exploitation. In many ways these tendencies implicit in a road rates structure are useful correctives to forces set in motion by rail transport. The immediate need, therefore, is to encourage a proper building up of an integrated road rates structure for each region. Zoning has always been recognized to be

a very arbitrary measure and the single officer or Board control on National highways is equally arbitrary. A single officer control might work well only when the principles on which that control was to be operated were clearly laid down. But it would certainly be objectionable and could lead to no constructive and useful results when conditions are so fluid as they are today in the matter of goods rates and traffic. Therefore, there should be no essential departure in this regard from the system adopted for passenger control. An initial limitation of traffic distance would be automatically achieved by the division of transport areas into regions and by the prohibition of the operation of specific types of vehicles over certain road surfaces. Even though route licences would not be suitable for goods transport, goods transport licences would ordinarily be restricted to regions within the control of a single transport authority. Any license which goes beyond the authority of a region should certainly be given only upon a close examination and with specific conditions attached. These restrictions would be sufficient to deal with problems such as those created by the movement of cotton by road over very large distances. Secondly, the goods transport concerns could also be encouraged to amalgamate and, in particular, to evolve an integrated rate structure. And goods transport control should work up to the publication and enforcement of such a rates structure. The only problem in roads transport that would appear to make difficult the working of a normal rates schedule is the empty return journey. Normally, however, the possibilities of such traffic are predictable and it should not be difficult to make a suitable allowance for them. Instead, therefore, of adopting a completely arbitrary system for goods traffic control the system of regional licenses together with the evolution of controlled rates would seem to meet best the requirements of the case. It is absolutely essential that road-rail relations and their comparative rates should not, at this early state, be put up into any fixed moulds by the adoption of such a measure as a zoning limit. It is also highly undesirable to differentiate sharply traffic on National highways from traffic on other related highways and roads. It might be noted that the report on service and rates of the English Transport Advisory Council (1937) follows an approach similar to the one advocated above. The U. S. A. Interstate Commerce Commission has also followed the policy of trying

to determine minimum reasonable rates and letting traffic divide itself among the competing transport agencies on that basis. If these policies are found appropriate in highly developed countries as U. K. and U. S. A. a policy that curbs development, as a monopoly inevitably does, is certainly not desirable to be accepted in India.

POST-WAR CURRENCY SYSTEM IN INDIA

BY

PROFESSOR S. KESAVA IYENGAR

"In modern times, currency and finance govern our destiny far more than the gods of old did when the world was young."—*League of Nations: Monetary Review*, (1939-40), p. 34.

Stability of employment, adequate output and a satisfactory standard of life—all this largely depends on sound monetary and financial policy. Men like Keynes, Schacht and Funk did help a great deal in the management of money in the most difficult six years of war. The United Nations Charter and the Bretton Woods Exchange Stabilisation and International Bank Schemes have yet to start functioning, and with these basic blueprints still in the air, it should be premature to forecast any definite and final monetary policy for India. Still, it might be worthwhile examining some issues which have a close bearing on monetary policy.

LOOKING BACK

It is common knowledge that in the past, some special theories were compounded for consumption in India on currency and exchange matters. Right down to the Hilton-Young Commission, exchange stability was given much greater importance by the authorities than the internal stability of the purchasing power of the rupee. The commercial community, on the other hand, strenuously advocated the depreciation of exchange to 16 d. per rupee. Internally, the money market was usually stringent and the monetary authorities did practically nothing to meet the needs of seasonal expansion and the rising level of economic activity. Production was depressed and finance was so managed that debit balances of payments were piled up decade after decade. There was no programme for development work worth mentioning and the low national

income was sliced off substantially for foreign use, with the result that the standard of life of the masses persistently deteriorated.

The second world war turned the tables. Production was increased, consumption stifled and the export plexus was maximised. We have thus had the nearly thousand crores of additional money in the country and more than a thousand million sterling balances after wiping out the sterling debt of India. She has emerged out of the recent war definitely as a creditor country, but the purchasing power of the rupee internally dropped down steeply to avoidable depths, due mainly to a policy of drift in the matter of controls, spelling misery and starvation for the masses. The war boom in India was narrowly sectional, benefiting only military contractors and hoarders and profiteers with windfall profits, the actual producer getting very little of the advantage of inflated prices. The "goldless gold standard" in Germany succeeded in maintaining the internal purchasing power of the Reichsmark through severely cutting down the import plexus and through a policy of "price-stop: wage-stop: money-stop" the exchange control system invented and developed in Germany is nowadays being luxuriously utilised by Britain in the Empire Dollar Pool abroad and the even more luxurious subsidies at home towards price stability (comparative) of essential article. It is true that inflation has been worse than in India, in China, Persia, Greece and Turkey, but it would be unreasonable to flatter ourselves by comparing Indian inflation with the state of affairs in those countries which had to face much worse circumstances. Table I annexed shows clearly the success with which leading countries of the world controlled prices and cost of living and the failure in India entirely due to the chronic drift policy.

PRESENT PROBLEMS

At least a partial liquidation of our sterling balances for the purpose of securing adequate amounts of consumer and producer goods at competitive rates, the raising of the national income in real terms and protecting the masses against the repetition of the Bengal happenings—these are our present problems. But the means suggested by some of our leaders and experts do not appear to be the right ones.

Many plead for depreciation of the rupee with a view to neutralise the internal inflation of prices and so secure price parities and compete in international trade. Is there a move in the U. S. A. for a further devaluation of the dollar in terms of gold? If not, why not? We in India stand on ground very similar to that holding sway in the U. S. A. Stability of the currency is of paramount importance both for internal confidence and external prestige. As Dr. Balogh put it, the stable currency in Germany was sacrosanct and was considered part of German capital which was on no account to be used up for financing the war. The same policy was pursued in Britain and the U. S. A. Then, why not in India? Better late than never. Exchange depreciation is a back-door method. The really sound and honest means for adjusting parities, is the reduction in the cost of living by means of adequate subsidies, on that basis a reduction in wages, on that a reduction in prices and on that a reduction in profits. This is the right procedure. Here in India, our natural resources (so frankly recognised by the Grady Mission), our labour potential, the modernisation of plant and machinery and methods (compare the five-point programme for the revival of the British cotton industry), and subsidies, concessions, facilities, taxation and purchase policy, all these must reduce costs in an organic way, and this must enable the country to reach a lower price level without any deflationary or depressing effects. The quantum of currency we have in this country is not at all disproportionate and once production is stepped up, real incomes must increase, denoting a higher level of social welfare. Again, exchange depreciation does not always lead to good. We have already depreciated to 4.87 per cent. of the 1939 parity, mainly on account of the sterling link, and the case will have to be proved before we resort to further depreciation. China devaluated to 7.4 per cent. by July, 1941, compared to the 1929 level of exchange, but what is the economic condition of China now-a-days? Vice President (ex) Wallace's report was by no means encouraging. Also, we must remember that exchange depreciation has always a high potential for economic warfare in peace time, and before inviting such troubles, the weaker party should chew the issues very carefully.

Some are still under the nightmare of unfavourable balances of payments once again soon after the transitiona.

stage, a considerable number of enthusiasts are developing the dream of India taking the place of Japan in the East in external trade and influence, and many agree in demanding that prices should be maintained with a view to sustain the pulse of industry in post-war India. Many an industrialist has gone even so far as to demand that consumer goods should be allowed from abroad very limitedly so that the local producer might not be discouraged, and the poor consumer should wait if necessary till local production reaches the market at its own costs and prices. All these matters have vital connection with monetary policy.

OBJECTIVES OF MONETARY POLICY

Minimum export of gold, exchange stabilisation (simple and relative), maintenance of purchasing power parity, of wage parities (absolute and relative), maximising the level of external balance, accumulation of foreign balances and investments—these have been from time to time objectives of monetary policy, externally. Internally, stability of purchasing power of the currency in view of the general price level, of the cost of living index, of relative stability in view of costs of production and levels of incomes, industrial stability and social stability—these have been individually championed from time to time. But by now all advanced communities in the world agree that social stability should be the single ideal to work for, and every thing else should be subordinated to that end.

Table II annexed shows that there is no causal connection between internal prosperity and the level of external balance: in Germany and the U. S. S. R., the external trade balance uniformly declined while the internal level of economic activity rose rapidly. The trouble about the present sterling balances should warn us against undue optimism about balances and investments abroad. It is noteworthy that the British scheme for an international monetary fund pleaded for a penal treatment of both persistent debtors and creditors. Among means recommended for recovering equilibrium in that scheme were (1) "measures for the expansion of domestic credit and domestic demand", (2) currency appreciation or alternatively, the encouragement of an increase in money rates of earnings; (3) reduction of tariffs and other import restrictions ; and (4) international development loans. But the last presumes

a platform of world security. The booking charge proposed to be levied as well on creditor balances as on debit balances in that scheme was a preventive measure overthrown in the final agreement which is declaredly but short-sightedly pro-creditor. In India, the chief aim for a long time to come should be to develop the home market and direct local production along avenues that would meet local demand. The fear about India lapsing to unfavourable balances of indebtedness are unfounded. Table III annexed shows how latterly, the trade balance of India has been uniformly favourable, and with a higher level of utilisation of natural resources of the country, the position, if anything, should become stronger than at present. Thus, there is little need to stimulate exports, not much room for importing capital goods (the industrialists have returned wiser after studying British and American capital goods markets) and the *real* problem filters down to increase of local production for local consumption which process should absorb almost the whole of the additional currency we have had these war years. This would revive the internal purchasing power of the rupee and also raise the standard of life of the masses.

DESIRABLE CURRENCY REFORMS

The purchasing power of the rupee should be gradually taken back to the 1939 level, not by reducing the money in circulation, not by means of the suffering of the producer or the entrepreneur, but through reduction of costs of production and the closest approximation of prices to costs. The following passage from W. H. Hutt is instructive: "The advantage enjoyed by the Nazi regime in the prosecution of total war arose mainly from the fact that the right to withhold productive power in the interests of capitalist monopolies and trade unions had been denied by Hitler's strength on the production side has been mainly due to his having kept the cartels and the trade unions in subjection. In the democracies, on the other hand the pursuit of "legitimate" profits, "fair" wages and security has led to widespread price and wage fixation, which in effect amounted to the same thing as a systematic restriction of output. The Nazi regime has ruthlessly squeezed out monopoly elements in prices, and compelled the closest continuous approximation of prices to costs, so that the right to withhold resources from production has been efficiently abolished. The whole object of price control with our enemy

seems to have been to enforce the full passing on to the consumer of the benefits of all cost reductions and prevention of higher charges for merchanting services."

Monetary gold reserves should be further strengthened specially by taking over the bulk of non-monetary gold in the country after sufficient publicity and propaganda, the decimal system should be introduced (Ceylon has stolen a march on us in this respect) and the rupee should be one-twelfth fine (thus relieving us of the serfdom under silver kings). The rupee should be linked to the U. S. dollar and the rate should be the present one. There is absolutely no ground for lowering the exchange. Provided these things are done, there is every likelihood of the rupee attaining the prestige due to it on account of the God-given environment.

GAPS IN CENTRAL BANKING

"The Reserve Bank of India is far from being the Ganges. It is worse than the Thames."—V. Ramadas Pantulu.

It is now ten years the Reserve Bank of India began working, but that institution has yet to improve vastly in the following respects :—

1. The building up of a bill market.
2. Revaluation of the gold reserve at world prices.
3. Adjustment of reserve ratios in view of needs of the money market.
4. The organisation of deposit insurance.
5. National Savings Certificates and industrial and agricultural finance.
6. Easy money policy (only the narrow commercial sphere has been tackled).
7. Debt repatriation policy : British shares in India and sterling holdings in England belonging to India ought to be interchanged, the only argument against this being imperial interests.
8. National scales of expenditure and routine.
9. Banking research, statistics, training and education.
10. Financing reconstruction.

Each of these is a long story and considerations of space require mere enumeration. But unless and until adequate progress is made by the Reserve Bank of India in every one of these directions, there could be little justification for expecting any successful economic future for this country.

TABLE I

Index Numbers of Wholesale Prices and Cost of Living in Certain Countries.

Country.	India.		U. K.		U. S. A.		Canada.		Germany.		Japan.	
Original Base Year	P. 1914	C. 32-33	P. 30	C. 14	P. 26	C. 35-39	P. 26	C. 35-39	P. 13	C. 28-30	P. 1900	C. 1914
1938	96	102	104	101	103	102	107	102	99	100	95	92
1939	109	102	106	104	101	101	103	101	100	100	105	104
1940	121	108	140	121	103	101	113	105	103	103	117	120
1941	141	118	157	129	114	106	123	112	105	106	124	122
1942	187	151	164	130	129	118	130	116	108	108	134	125
1943	311	223	167	129	135	125	136	118	109	110	142	133
1944	302	229	171	131	136	127	140	118	...	112		
1945												
Jany.	303	221	172	131	137	128	140	118				
Febry.	303	2 1	172	131	138	128	140	118				
March	310	217	172	131	138	128	141	...				

TABLE II

Figures relate to merchandise only.

(In millions of national currencies)

	Germany		U. S. S. R.	
Year.	Imports.	Exports.	Imports.	Exports.
1929	13,447	13,483	3,857.2	4,045.8
1933	4,204	4,871	1,525.2	2,667.5
1934	4,451	4,167	1,018.0	1,832.4
1935	4,159	4,270	1,057.2	1,609.3
1936	4,218	4,768	1,352.5	1,359.1
1937	5,455	5,901	1,341·3	1,728·6
1938	5,443	5,249	1,422·9	1,331.9
1939	3,194	3,314		

TABLE III

Figures relate to merchandise only (in millions of national currency)

INDIA

	Imports.	Exports.
1929	2502. 8	3225. 4
193 . (?)	1147. 6	1444. 4
1934	1252. 4	1482. 8
1935	1342. 9	1571. 2
1936	1223. 1	1806. 1
1937	1592. 4	2024. 1
1938	1502. 1	1623. 7
1939	1549. 6	1814. 4
1940	1530. 0	2091. 6
1941	1754. 9	2287. 1
1942	1664. 4	2193. 6
1943	1046. 4	2054. 4

(Source—Statistical Year Book of the League of Nations—1941-42-43)

1938-39	1523. 3	1691. 9
1942-43	1004. 4	1949. 6
1943-44	1177. 7	2099. 9
1944-45	2009. 8	2277. 3

(Source—*Commerce*).

INDIA AND THE STERLING AREA

BY

V. S. KRISHNA

Professor, Andhra University

I

Of the many experiments during the Inter-War period in the field of international monetary organisation none is more interesting and instructive from the point of view of future possibilities than the organisation of Sterling Area. It has shown that abandonment of gold standard does not involve the adoption of a policy of freely fluctuating exchange rates and that under a paper currency regime it is possible to maintain reasonably stable exchange rates and organise a system of multilateral trade over a wide area. It is recognised that this organisation has not only been responsible for the revival of trade within the Sterling Area but has also made a substantial contribution for the ultimate revival of trade in the world as a whole.

This does not mean however that the continuance of this organisation would be as advantageous in future as in the past, nor does it follow that even in the past all members received substantial benefits. It is therefore necessary to consider first the question of the advantages to be derived from the continuance of the Sterling Area and secondly, the desirability of India continuing to be a member of the Area. It is necessary to study the causes for and the conditions under which the Sterling Area developed and to study the position of India under the organisation before discussing India's future policy in the matter.

II

Even before the breakdown of the international gold standard a considerable number of countries found it advantageous to keep their international monetary reserves, either in part or wholly, in the form of foreign exchange. For certain poor countries, gold standard with gold currency

was considered to be a luxury and in those cases most of the reserves were held in the form of foreign exchange. Even rich countries found it advantageous to keep a certain proportion of their reserves in that form firstly because of the interest that could be earned and secondly because of the difficulty of obtaining adequate quantities of gold when all the leading countries were on gold standard. This development lessened to some extent the scramble for gold and introduced an element of elasticity in international monetary reserves. Though political and economic relations determined to some extent the centres at which these reserves were held, the financial prestige of some countries and the stability of their currencies were responsible for the growing tendency towards concentration of these reserves mainly at two or three centres.

When the gold standard broke down and when it was found necessary to have international trade on some stable basis, it was quite natural to think of this tried system of foreign exchange reserves. For several countries the obvious centre for holding the reserves appeared to be London. Though some countries had thus no choice in the matter, for others the link with sterling offered distinct advantages. In the first place, for most of the countries which became members of the Sterling Area, Britain was the biggest trade customer and hence it was an advantage to keep their currencies stable in relation to sterling. The second consideration was Britain's traditional leadership in monetary management which, after some setbacks in the early post-war period, regained the confidence of other nations on account of the new technique developed for holding the paper pound at a fairly stable level at a time when there was so much uncertainty and instability. Lastly, when compared with her main rival, the U. S. A., she could show stabler economic conditions at home.

Thus, except in the case of dependent countries, the Sterling Area was a voluntary organisation. It is true that Britain offered special facilities to the foreign members of the Area for borrowing in the London Money Market to strengthen their exchange reserves and it is also to be noted that the Ottawa and other Trade Agreements represented a second positive step on the part of Britain for consolidating and extending the Sterling Area. But most of the countries were free to leave the

organisation whenever they found the continuance of their membership disadvantageous and, what is more important, they could peg their currencies to the sterling at a rate chosen by them unilaterally and some of them changed the rates chosen by them at the time of their joining.

Absence of formal agreement between Britain and the other members with regard to the conditions of their membership and with regard to the choice of exchange rates in particular was the most interesting feature of the Sterling Area before the recent World War. Britain had to undertake certain additional responsibilities especially in the matter of keeping international monetary reserves required for setting the transactions of all the members of the Area with the non-members. Nevertheless, she found the organisation advantageous to her because she had the use of the reserves of other countries and sterling was the accepted medium for settling the international financial transactions within a wide area.

III

Owing to the special conditions created by the recent War, there have been some important changes in the Sterling Area. Most of the countries which are outside the British Commonwealth have ceased to be members but the relations between the remaining members have become closer. A new connection has been established with important countries like France, Belgium and Holland after their liberation by the Payments Agreements, but it is not possible to say that these countries have become members of the Area, though their currencies exchange for sterling at fixed rates. It seems to be the intention of the British Government to maintain and extend the organisation even if the proposed International Monetary Fund comes into operation. Under these circumstances, such of the countries as are closely connected, through trade or other financial transactions, with Britain have to consider whether it is advantageous for them to join either or both the organisations.

Britain proposes to continue the Sterling Area not as an alternative to the Monetary Fund but in addition to it. The question might then be raised, whether the functioning of the Sterling Area would not affect the Fund adver-

sely. If it is the intention of the supporters of the Fund to see that all international clearing transactions are done through the Fund, then the continuance of the Sterling Area might not appear to be consistent with this purpose. The position of the Fund would be similar to that of the old League of Nations which failed because most of the major questions were discussed and agreements were reached not through its machinery but independently of it. The supporters of the Sterling Area and other regional monetary groups might maintain, however, that such groups would contribute to the ultimate success of the Fund. By maintaining stability within each group, they make the problem of world-wide stability easy of solution. They might claim that their plan would lead to a reconciliation of the two ideas which have been prominent in recent monetary discussions, viz. universal stabilisation through the establishment of a central institution and stabilisation of the key currencies in relation to one another.

The main rights and obligations involved in the membership of the Fund are fairly clear though some of them require a more precise definition. The members have to remove exchange restrictions on current transactions gradually and maintain stable exchange rates which could be changed under certain conditions. To enable them to follow such a policy they would be granted accommodation upto a specified maximum to meet adverse foreign balances. Members of the Fund become eligible for the membership of the International Bank.

The rights and obligations of the Sterling Area are not so clear. Membership in the pre-war organisation did not involve the acceptance of any specific responsibilities or the infringement of the sovereign rights in economic matters. If the same practice continues several countries which do not need external help to balance their foreign trade accounts and which want to retain their freedom with regard to commercial and exchange policy might choose to be members of the Sterling Area rather than of the International Monetary Fund. But would Britain continue to accept a position where, for instance, the other members could vary the value of their currencies in terms of sterling unilaterally while she could not do it on her own initiative? Unless the intentions of Britain in the matter are definitely known, it would not be possible to assess the benefits from the membership of the Sterling Area.

20

IV

In considering the question of India's membership of the Sterling Area we have to take into account the recent changes in India's position and the probable trends in India's economic development.

India's past membership of the Sterling Area was not, as in the case of other countries, based primarily on the trade connections between her and Great Britain. In the case of the other members of the Area, Britain took the major portion of the commodities exported by them and in almost every case, the exports of those countries to Britain exceeded the imports. It was their interest to safeguard their competitive position in their principal market through stable exchange rates. In the case of India, only about a fifth of her exports went to Britain. So on trade account alone pegging the rupee to sterling was not of such a great importance to her as to the other members. It might be argued, however, that India's trade with all the members of the Sterling Area should be taken into consideration and if this is done, the advantage of stable exchange rates in relation to the whole Area becomes more substantial. This, however, depends on the extent of the Sterling Area which changed frequently and on the willingness of the other members to refrain from changing their rates unilaterally which was not the case.

The main reasons for India's membership of the Sterling Area were political and financial. India was politically dependent and she could not adopt a policy which was wholly in conformity with her economic advantages and the existence of large financial commitments expressed in sterling provided a plausible argument for adopting the policy of linking up the rupee with sterling. Now that the sterling obligations have for the most part been liquidated and India's political status is likely to be raised, we may consider the question of the continuance of India's membership purely from the point of view of its effects on internal economic development.

The two factors that played a dominant part in the determination of India's monetary policy in the past were the large external debt and the nature of the foreign trade of the country. As the former was contracted in sterling, it provided the Government with an argument for pegging

the rupee to the pound. As the export trade of India consisted mainly of raw materials, the foreign demand for which was subject to wide . fluctuations, this policy of pegging required a considerable reserve of international means of payments to act as a buffer. The liquidation of the foreign debt and the plans for rapid industrialisation of the country require a review of the whole position.

The main factors that have to be taken into account are the following :—

1. The changed position of India makes it necessary and possible to direct monetary policy mainly towards a steadily growing internal investment.

2. At least in the early stages of industrial development India needs considerable foreign capital even if she is able to utilise the accumulated sterling balances as and when she wants. She might have to import consumers' goods, too, partly to meet the deferred demand for them and partly because in the early stages she would not be in a position to meet even the normal demand because of the concentration on the development of heavy industries. Unless such goods are imported we might have to face further inflation. Industrialisation would, on the other hand, reduce India's capacity to export during the early stages. She might have to use internally many of the raw materials which she has hitherto been exporting. For some years, therefore, our imports are likely to exceed the exports.

3. As India has to make use of all the available foreign resources for industrial development, she might not be in a position to keep a large reserve of foreign exchange for keeping the rupee stable. Britain might easily consent to release part of our sterling assets for this purpose but in that case India would have to borrow more for the purchase of capital goods and she would have to be a member of the Sterling Area whatever the other advantages or disadvantages might be.

4. Though the liquidation of the foreign debt would make the fluctuations in economic activity due to changes in the foreign demand for raw materials less frequent in future, there might be fluctuations due to changes in internal investment which might affect the foreign trade balance. As the plans for economic development now

under consideration provide for a large measure of central control, we may exclude this possibility. If, in the above circumstances, India continues the controls over imports and exports imposed during the war, it might not be necessary to take special steps to stabilise the external value of the rupee and to keep a large reserve of foreign exchange. The question of her joining any of the international monetary organisations does not then arise. But in peace time even if imports are controlled, it might not be possible to control exports effectively, because our demand for foreign goods might be regulated by our government but not the demand of the foreigners for our goods. So the foreign trade balance is not likely to be completely under our control and as this balance affects internal employment, measures have to be taken to see that it does not adversely affect the country's economy.

If the economic development of India during the coming years depends to a considerable extent on the importation of foreign capital goods, foreign trade would play a prominent part in determining internal investment. The exchange policy that might be followed in that case would naturally differ from that followed when the internal economy is not in a transitional stage. It might be advantageous for India to keep the external value of the rupee at a fairly high level so long as it is necessary to maintain imports at a higher level than exports and when this is reversed to reduce the value of the rupee. The policy that recommends itself is, therefore, one of stabilisation of the external value at a level which corresponds to the fundamental factors in the economic situation and changing it when these factors change.

India's cooperation with any international monetary organisation should, therefore, depend on the possibility of pursuing such a policy without the necessity of locking up a considerable part of her resources in foreign exchange reserves.

From the above point of view the International Monetary Fund offers several facilities. If India joins that organisation, she would get credits to meet temporary adverse trade balances and to that extent the need for keeping foreign exchange reserves would be reduced. She would be able to change the external value of the rupee beyond 10 per cent only when there is a "Fundamental Disequili-

brium" and this term has not been defined. If a change in the foreign debt position of a country is recognised as one of the factors requiring a change in the exchange rate besides the internal cost-price structure, India might accept the provision.

When we consider the Sterling Area there are so many ambiguities and uncertainties that it is not possible to come to a definite conclusion immediately. We must have more information than what we possess at present on the following points :—

1. Whether the organisation would be left vague as before the War or whether the mutual obligations of the members would be defined ;

2. Whether any special facilities would be offered to members for borrowing in London if funds are required for exchange reserves ;

3. Whether under the new conditions Britain would be able to maintain a stable standard especially when she has to provide facilities for the conversion of sterling into the currencies of non-members to meet not only her adverse balances but also those of other members.

As regards the first two points, Britain might decide to follow the pre-war policy, especially as she is not now in a position to make a more advantageous bargain than in the pre-war days. India might be attracted by such concessions. She might have the right to change the exchange rate according to her economic position and she might get facilities to borrow sterling for reserve purposes if she wants to use the whole of her present sterling credit for the purchase of capital goods. The cost of maintaining a reserve on this basis might not be much because what she borrows on a long-term basis might be relent on a short-term basis. She has to meet only the difference between the two rates of interest which at the present interest levels and on the basis of the magnitude of the reserve needed, would not amount to much.

The most important point is, however, the last one. Britain's ability to manage the international sterling standard would depend firstly on her ability to increase her exports, secondly on the possibility of continuing the system of preferential trade built up by her and thirdly on her ability to extend the Sterling Area so as to make

it as nearly self-sufficient as possible. As several of her former trade rivals would not be in a position to compete with her for a long time to come, Britain might be able to increase her exports considerably. The productive capacity of U. S. A. has increased enormously but the world's demand for capital goods, in special, would be on such a level for sometime to come as to require full utilisation of the productive resources of both the countries. But whether Britain's share would increase to such an extent as to enable her to recover the enormous losses and to provide for the planned increase in the standard of living is a question for which it is difficult to give an affirmative answer. The preferential system is opposed by the U. S. A. and as Britain needs the financial help of the U. S. A. during the period of transition from war economy to peace economy, the former might have to yield in the matter even if she is able to induce the other parties to the agreements to continue them.

Under these circumstances Britain cannot be expected to possess the necessary resources to manage the international sterling standard so successfully as before and this might keep out some of the former members of the Sterling Area. When the Area contracts there is no point in India continuing as a member of that organisation.

AN INTEGRATED RAILWAY RATE POLICY

BY

P. C. MALHOTRA

Professor and Head of the Department of Economics
D. A.-V. College, Lahore

THE CHANGING NATURE OF INTERNATIONAL TRADE

Foreign trade has received an exaggerated importance in most countries. This is evident from the fact that international trade has been broadly considered an index of economic prosperity. In India foreign trade monopolised our attention because the Government was more interested in foreign than in internal trade. Again, a favourable trade balance had come to occupy an unique importance in view of the fact that India had to meet annual payments on account of 'Home Charges' and import of services (shipping, banking, insurance etc). The cause of internal trade had consequently been overlooked in India.

World trade had undergone a revolution in the period after 1918. The world depression of 1930 crystallized the new trends in foreign trade. Economic self-sufficiency became not merely a watchword but a rigid policy. The result was that world trade was now no more synonymous with international trade but was the sum-total of trade activity carried on in various nations.

INTERNAL TRADE AND ITS IMPORTANCE FOR INDIA

The connection between economic prosperity of a country and its foreign trade is quite uncertain. India's case illustrates the argument. For a country of the size and population of India her internal trade is of far greater importance than her foreign trade. But for a small country like the United Kingdom her very prosperity is dependent on her foreign trade. As India develops her industries she would gradually reduce the demand for foreign imports. Her exports will also diminish; partly, if we buy less from other

countries they will buy less of our goods and partly because the raw materials formerly exported would be utilized at home. The immediate consequence of her industrial development will be a decline in her foreign trade. There are additional reasons why we must look for prosperity more in terms of the development of internal than in terms of foreign trade. International trade has been strangled by exchange restrictions, quota agreements and tariffs. India is pledged to a policy of protection for her industries. This limits the sphere of bargaining power with other countries. Lastly agricultural revolution abroad by reducing the costs of production of agricultural products in foreign countries and the adoption of agricultural protection abroad by several countries have made the instrument of India's export trade for promoting economic prosperity of the country a weak one.

RAILWAY RATE POLICY AND ECONOMIC PROGRESS

The railway rate policy can be an important lever for raising economic progress of our country. The connection between transport and industries has always been an important one. The beneficial effects sought from a well-meant tariff policy may be discounted or even nullified by an indifferent or a perverse transport policy. This is what perhaps led Bismark to remark, "Give me control of railway rate policy and I don't care much for your protective duties." In their own interests too the railways in India must revise their rate policy. The tempo of economic development in our country cannot be checked. It may be accelerated or obstructed by a progressive or an obtuse railway-rate policy. The future prosperity of our country rests on the development of her vast resources. Railways can make their contribution towards that end and also benefit by it.

COMPLAINTS AGAINST THE RAILWAY RATE POLICY

Railway rate policy in the past discouraged Indian manufacturing industries. The port rates were lower than the internal rates. The result of this policy has been the congestion of industries in port towns. The Industrial Commission recommended that "internal traffic" should be rated as nearly as possible on an equality with traffic of the same class over similar distances to and from the ports." Com-

plaints regarding unfair railway rates on raw materials transported from other parts of India and on their manufactured goods despatched to the various markets were made by the Indian industrialists also before the Indian Fiscal Commission. The inequity and the anomaly of the railway rate policy in India was forcibly pointed out by the Indian Merchants Chamber, Bombay, in their memorandum submitted to the Indian Railway Committee (1937).

A comparison of the freight charged by various railway lines for port and internal traffic substantiates the defective nature of railway rating policy.

The freights charged on piece-goods from Bombay to up-country consuming centres are cheaper per maund per mile than those charged from factories situated in the hinterland of the country.

It was maintained before the Tariff Board on heavy chemicals that the freight on some of the chemicals from Ambernath to the interior was higher than Bombay to the same places though the distance was about 45 miles longer. Even if the two rates were equal, that did not meet the objection in principle that the indigenous industry was deprived of its geographical advantage and the foreign industry was given to that extent a preference over the indigenous industry.

More numerous station to station rates are quoted from the port towns. This method of rate quoting is only occasionally adopted in respect of internal mill centres and places them at a disadvantage in competition with the importer. "On the solemn plea of port and inter-railway competition the Indian railways have kept rates at port towns like Bombay, Calcutta, Madras and Karachi lower, just enough to cover their prime costs and leave a residual share to meet the fixed costs, whereas the internal traffic has to bear not only its share of the total costs but also of the total traffic. Thus the internal traffic has to maintain the railway system and the imported traffic reaps the advantage by paying a little over its out-of-pocket expenses."

"TELESCOPIC" AND "THROUGH RATES"

Another peculiarity of the railway rate policy in India is that different railway systems are considered as separate units in through booking. This is highly detri-

mental to the industrial development of the country as telescopic rates are not quoted on the entire distance traversed by a given consignment. The cost of transport on internal transit is consequently unduly high. "Cement despatched from Porbunder to Ahmedabad has to pay high freight than that from Bombay to Ahmedabad because in the former case the consignment has to travel over the Porbunder, Gondal and Bhawalnagar State Railway before it reaches Wadhwan, from where it is taken over by the B. B. & C. I. Railway to be carried over to Ahmedabad while in the latter case the consignment is carried direct to Ahmedabad by the B. B. & C. I. Railway alone." Again coal carried from Bengal coal fields to Amritsar does not get the benefit of a through rate on the total distance because the traffic passes over the E. I. Railway and N. W. Railway. This is due to the individualistic policy pursued by the Railways even when the different railway zones are state-owned and state-managed.

COMPUTING "THROUGH RATES"

The accounts and finances of various railways are kept distinct. The basis of rates for each railway would depend upon the nature of the country travelled (hilly or level), the quantum of traffic offered, the other operating conditions peculiar to that system and the total capital outlay on the system. These factors explain why it becomes necessary for each railway to have a distinct 'rate base.' At the same time traffic, if it is not to be stifled, must be carried on diminishing rates as the distance increases and the number of railway administrations over which traffic passes should not be allowed to develop into another barrier of trade.

The benefit of the continuous mileage can be made available to the trader if the following formula is adopted for calculating through rates :—

1. Calculate the rate for the entire distance at each of the rates chargeable by different railways.

2. Work out for each railway its pro rata amount and add up the various freights to give the total freight.

3. Apportion the earnings either as calculated or on a mileage basis.

In view of the important railways already having become state-owned and state-managed, it may even be pos-

sible to introduce telescopic rates over a longer mileage resulting from a more rational grouping of railways into suitable regional zones.

RELATIVITY OF RATES AND THEIR SIGNIFICANCE

The problem of relativity of rates is of peculiar interest to Indian industrialists. A strict relativity must be maintained between the rates on raw materials and their own finished products ; between all the various by-products in an industry ; and, of course, always as between goods capable of substitution one for another. The location and development of manufacturing depends upon it. From the point of view of regional economic planning in our country, the question of relativity of rates assumes an added significance. Industries usually tend to develop at or near the source of raw material, but not always. The leather industry of Madras draws its raw material in bulk from North India and the manufactured leather is sent back to the North India market. Such examples may provide an interesting study in the problem of relativity of rates.

GOODS RATING

For the purpose of rating, goods are divided into ten classes. Each class has a minimum and a maximum rate. Within these limits the railway administration is generally at liberty to vary rates.

Railways can, if they desire, give substantial protection to industries by quoting special rates or deprive them of protection by quoting higher rates within, of course, the prescribed limits.

When we examine the case of the paper industry we witness a very welcome change in the railway-rate policy. "The special station-to-station rates which the railway quoted on the imported traffic in pre-war years, denying similar facilities to the local mills, have fortunately become things of the past. *Per contra*, the rates position to-day is just the reverse. While the local mills are quoted special station-to-station rates to more important consuming centres, both on actual weight and on wagon load consignments, the imported traffic gets the concession only to a few markets and that too due to port competition. This has helped the mills considerably in marketing their output and gives a substantial protection against the competition of the importer. Thus, the railway rates policy supple-

ments the policy of the discriminating protection." It is incumbent on railways to pursue a similar policy in respect of other industries as well.

RE-ORGANIZATION OF RAILWAY RATES ADVISORY COMMITTEE

Before the Railway Inquiry (Wedgewood) Committee (1937 some chambers of commerce advocated the abolition of the Railway Rates Advisory Committee and the appointment in its place of a body with mandatory powers like the Railway Rates Tribunal in Great Britain or the Inter-State Commerce Commission in the United States. Another suggestion put forward was the re-organizing of the Railway Advisory Committee on the lines of the Tariff Board.

The Railway Committee supported the retention and the present jurisdiction of the Railway Rates Advisory Committee and made the following recommendations :—

(*a*) Less time should be occupied in preliminaries, and the procedure generally should be expedited.

(*b*) The Government should undertake to refer to the Advisory Committee any relevant application and in case of refusal to refer an application to the Committee give reasons for so doing.

(*c*) A copy of the recommendations of the Committee to the Government should be supplied to the applicant.

(*d*) The final decision of the Government on the application should be published.

The above recommendations when put into force would no doubt remove several grievances against the method of working of the Railway Rates Advisory Committee. But it would not energise this body into a machinery for formulating a forward railway rate policy contenting itself not merely with removing anomalies or inequities in railway rate structure but helping and developing internal trade so far as it is possible through the instrument of a remodelled railway rate policy.

A national railway rates policy must be in keeping with the changed fiscal policy of the country. Uptil now railways have moved passively. They have met a demand where it existed. But railways should not only carry

traffic, but also create it. This is the spirit in which railways are worked in foreign countries. In Germany railway rates were carefully regulated to serve alike the local industires and agriculture. German railways assisted the export trade by preferential tariffs carefully framed to enable home manufacture to enter home markets on favourable terms, and augment the restrictive influence of import duties on imported traffic.

RAILWAY RATES AND RAILWAY FINANCE

The last world depression and road competition led the railways in India to a lot of heart-searching on their part. Various attempts were made to put railway finance on its feet. The railway budget for 1940-41 raised the railway fares and rates from 1st of March, 1940. The war created an extraordinary demand for the services of railways and a part of the defence expenditure was earned by the railways which combined with higher freights swelled their revenues. For the year 1945-46 the working of railways in India showed a surplus of Rs. 42·02 crores of which Rs. 31·18 crores was transferred to the general revenue. But reviewing the history of railway finance we find that there was a loss of about Rs. 58 crores in the first thirty years of operation of railways in India. Railways were being run in public interest. They were a boon in themselves and questioning the reasonableness of railway rates appeared like looking into the mouth of a gift horse. As railways began to show profits in their working and with the association of Indians in railway management along with the greater transfer of power to Indians in the field of country's administration, the attitude of the public towards the working of railways in India changed.

The correct way of putting the railways' finances on a stable basis is to run them like a commercial concern. Real economies are neglected and cheese-paring economies are both emphasised and advertised. Measures are taken which are merely in the nature of makeshifts. The tax-payer in India expects from railways a handsome contribution to general revenue and the public expects the railways to encourage industry and trade by way of lower rates. Unless railways in India work on strictly commercial principles they cannot give much relief to the tax-payer by way of contributions to the general

revenue. Unless railways in India function as a part of planned national economic structure they cannot encourage trade and industry. There is possibility of real injury to the economic development of the country so long as the various levers of economic reconstruction railways, tariffs, currency, banking, do not work with one aim.

CONCLUSION

It is a pity that the railway administration in India has not still realised the urgent necessity of liberalising its rate policy to suit the present needs of the economic development of the country. By asking them to adopt a liberal rate policy the railways are not being called upon to cast bread upon the waters. It is as much in the interest of the trade as in the finances of the railways. Railway rates should not only cater for the existing traffic but also create new traffic. A beneficent circle of railways helping trade and trade helping railways can set in.

The classification of goods for determining railway rates was last revised in 1922. Nearly a quarter of a century has witnessed the last world depression, the second World War, and economic development of the country the main trends of which are easily noticeable. Then we have prospects of planned economic development of the country in the post-war period, based on some sort of accepted industrial policy. The entire question of railway rate policy must be reviewed in the light of past experience, existing grievances and future requirements.

FOOD POSITION IN ORISSA

BY

S. MISRA, M.A.

Ravenshaw College, Cuttack

At a time when economic forces are fast transcending political frontiers, it will be out of tune to discuss economic problems on national scale. To consider separately the food situation in a small province of India would naturally appear far too parochial. Nevertheless, under the existing state of affairs, administrative demarcations cannot be ignored. The working of provincial autonomy and, in particular, the supply and distribution of foodgrains during the critical days of 1943 still provide sufficient justification for separately studying the food situation with reference to the different provinces. There cannot, of course, be any pretensions to make out a case for a closed economy or provincial self-sufficiency in matters of food. Nothing can be more suicidal. A study of the food position in the different provinces will only furnish the component elements for a properly comprehensive understanding of the all-India position. Any national food policy must necessarily reckon with the problems in the different parts. It is with this end in view, that a study of the position in the province of Orissa is attempted.

It is a highly disquieting feature of Indian economy that while the population is constantly on the increase, extension of cultivation has not been able to keep pace. During the years 1921 to 1941, though the number has gone up by as much as 22% the increase in the area under cultivation has been almost negligible. Against this background of Indian economy, the situation in Orissa is rather deplorable. This will be evident from the following figures ;

Year.	Net area sown.	Total area under foodgrains.	Land not available for cultivation
	(In thousands of acres)		
1936-37	6,486	6,177	6,173
1937-38	6,448	6,132	6,211
1938-39	6,508	6,186	6,211
1939-40	6,435	6,147	6,212
1940-41	6,100	6,179	6.581
1941-42	5,926	5,826	6,581
1942-43	6.194	5,729	7,098
1943-44	6,296	5,746	7,098

During the decade, 1931-41, the population of Orissa increased by 9%, whereas the area under cultivation, not to speak of keeping pace, has actually gone down by more than 8% between 1936 and 1941. Since then the rate of increase in the population year after year would not have been less, for though the death-rate might have been higher in 1943, this must have been more than compensated by the return of a large number of Oriyas from Burma. There is thus an inverse movement between the growth of population and progress of cultivation. Very recently there had been a slight recovery, probably on account of war-time demand for the produce and Government encouragement. The area under foodgrains is showing progressive deterioration. During the eight years, for which statistics have been furnished above, it has gone down by about 7%. The shortage of foodstuff and stimulus of high prices do not seem to have exerted any influence on the position; or perhaps had it not been for these, the extent of cultivation might have shown further deterioration.

What is really alarming is that during the period under review, the extent of land not available for cultivation has been appreciably increasing year after year. The

diminution in the area under cultivation has not resulted in the increase of the current fallows or cultivable waste. Permanent damage done progressively to the landed wealth of the province has already assumed serious proportions. During a period of 8 years only, land unfit for cultivation has increased by as much as 15 per cent, and this does not seem to have attracted as much serious attention as it deserves. For a province almost exclusively dependent on cultivation, the problem has become already serious.

Orissa normally exports a certain amount of rice every year. The Foodgrains Policy Committee put down that Orissa has an "exportable surplus" of 183,000 tons of rice a year. Since a substantial part of the trade of the Orissa States passes through this province, it is difficult to state accurately, how much of this comes from Orissa and how much from the States. The Parliamentary Secretary to the Government of Orissa stated[1] that on the average 154,000 tons (42 lakhs of maunds) of rice are exported from Orissa through the railways, and of this, one-third to one-half comes from the neighbouring States of Orissa. In 1942-43, the paddy crop, in certain parts of Orissa was badly affected and in the critical period of 1943, controversy arose regarding the justification of maintaining these exports.

Statistics regarding yield, consumption and export of foodgrains for Orissa are as imperfect as they are for almost any other part of India. Nevertheless, from the official figures available, a broad analysis of the situation is possible. The average annual production of rice in Orissa during the last 5 years has been 1,330,000 tons. The annual average recorded in the Report on the Marketing of Rice in India and Burma, calculated probably over a larger number of years, is 1,290,000 tons. All that is produced cannot be made available for home consumption and export. It has been estimated that in Orissa 85 lbs. of paddy seeds are required for transplantation in one acre of land and 110 lbs. for broadcasting. The province has about 5,070,000 acres of land growing paddy every year. Computing the average and converting it to rice, the total seed requirement of the province comes to 145,000 tons of rice a year. Thus even from the optimistic average of the last

[1]*Proceedings*, 13-3-44.

5 years' yields, only 1,185,000 tons are available for home consumption and export.

The Parliamentary Secretary also stated[2] that an adult in Orissa requires 16 oz. (8 chhataks) of rice a day and a child below the age of 12 years on the average, half that amount. This seems to have been adapted from the amount of cereals (excluding) pulses prescribed in Dr. Akroyd's formula of balanced diet. But the other nutritive constituents in the diet are very much lacking. It was found by actual survey in families in certain rural areas in Orissa, that the mean daily intake of rice per adult is 19 oz.[3] Orissa, according to the census of 1941 has a population of 8,729,000. Children below the age of 10 years constitute 28·5% of the population. It may, therefore, be concluded that children below the age of 12 years form about 30 per cent. On this assumption, the food supply in Orissa should be sufficient for an adult population which must be equal to 85% of the total population of the province. On the 16 oz. ration a day per adult, Orissa needs 1,210,000 tons of rice a year for home consumption. Thus there arises an annual shortage of 25,000 tons of rice. Considering the daily requirements of a person to be 19 oz. on the basis of the results of the survey referred to above, which perhaps may not be enough in view of the lack of nutritive and protective food, the annual food requirements of Orissa comes to 1,434,000 tons and, therefore, the annual shortage of rice amounts to 249,000 tons.

Thus the amount of cereals needed for consumption in Orissa, estimated on strict rations, cannot be adequately met from the rice produced in the province, even considering the optimistic average yield. No account has been taken in the above estimate of the normal wastage of foodstuff, which is inevitable in normal times. On the other hand, the province also produces a certain amount of "other foodgrains" of which 103,000 tons are available for consumption, allowance being made for seed requirements. A part of this quantity is also exported. It is thus evident that even when these other foodgrains are made to supplement the supply of rice in Orissa, the quantity will not be adequate for the needs of the people.

[2] *Proceedings*, 13-3-44.

[3] *Health Bulletin* No. 28, p. 4.

All the same, a certain quantity of rice is annually exported from Orissa. The quantity of export as stated before is perhaps an underestimate, since there are other channels of export besides the railways. It may be necessary to check, restrict or control the export of rice in a particular year, but as a part of normal economic policy, it is an utter absurdity. Orissa depends almost for every other thing on outside sources. Foodstuffs like sugar, wheat and potatoes are imported in considerable quantities. Of industrial products, Orissa has scarcely anything produced within her frontiers, and in these respects, she is almost exclusively dependent on foreign supply. As against all these, the only exportable commodity she has is rice, besides a considerable volume of surplus population working as wage-earners in different industrial centres. Thus export of rice from Orissa is quite in the fitness of things and is a necessary feature of her normal economic position.

Such is the case with regard to rice, the chief item in the dietary of the province. A balanced diet must contain many other items in order to be nutritive and protective and to supply the necessary amount of energy. It is unfortunate that three-fourths of the vast millions of Asia are living below health standards. The ratio will be larger in this country. It is necessary to quote here the findings of the survey[4] of groups of families in rural areas in Orissa. According to that survey, the mean daily intake of various foodstuffs on the average a day per adult was found to be as follows :—

Rice..........................	19	oz.
Pulses......................	1	,,
Leafy Vegetables.........	1.4	,,
Non-leafy vegetables......	6	,,
Vegetable fats and oils......................	0.3	,,
Fish, meat and eggs......	0.6	,,

It is needless to comment on the effect of this assortment of food on the health, vitality and efficiency of the people. No wonder that many of the people in the rural

[4] *Ibid.*

areas are living very much below common health standards. The food consists almost entirely of some rice and fortunately, a certain quantity of vegetables. Other items are conspicuously lacking. Milk, for example, scarcely enters into the dietary of the common man. It may be mentioned here that the per capita consumption of milk in Orissa is only 2.5 oz. a day as against 10, 19.7 and 22 oz. in N.W.F., the Punjab and Sind respectively.[5]

This in short is the picture of the food situation in the Province of Orissa.

It is sometimes put forth that five acres is a subsistence holding for the average family in India, numbering 4.2 persons. On that basis, attempt has been made to work out co-efficients of overpopulation in the different provinces by dividing the amount of land necessary for subsistence by the area actually under cultivation. The following figures show the per capita crop area in the different provinces.

Province.	Land under cultivation per head of population.
	Acres.
Assam	0.66
Bengal	0.41
Behar	0.49
Bombay	1.38
C. P.	1.44
Madras	0.65
N. W. F. P.	0.69
Punjab	1.00
Sind	1·12
U. P.	0·66
Orissa	0.69

It is evident from the table above that the position in Orissa is unenviable, by the side of many other sister provinces, though she compares favourably with Behar and Bengal. This method of comparison, however, does not

[5] *Marketing of Milk in India* (*Abridged.*) pp. 10-11

serve much useful purpose. The assumption of five acres per family for necessary subsistence is very much mechanical and fails to go to the root of the problem. This will not provide a scientific basis of the food supply of all the provinces. The method of cultivation, productivity of the soil and facilities for improvements have also to be taken into account, which are widely different even from province to province.

The low productivity of Indian soil, particularly with reference to rice is now well-known. It is in the yield of rice that the province of Orissa along with many others, is vitally concerned. The following figures give a comparative account of the average yield of rice.

Country.	Average yield of rice per acre.	Province.	Average yield of rice per acre.
U. S. A.	1,481 lbs.	Madras ...	1,000 lbs.
Japan	2,307 ,,	Bengal ...	880 ,,
Egypt	2,079 ,,	Bombay ...	800 ,,
Italy	3,000 ,,	Assam ...	720 ,,
China	1,435 ,,	Orissa ...	600 ,,
India	832 ,,		

India's average yield of rice per acre is very low indeed compared with what it is in certain other countries for which figures have been given above. This has been attributed to various causes, though matters continue to remain where they were. But it is of particular importance at the present context to notice that of all the important rice-growing provinces, the average yield stands out the lowest in Orissa. When it is also remembered that 82% of the land under cultivation in this province is under paddy crop, the low yield is indeed a matter for serious consideration. This appreciable difference from the yields in the adjoining provinces is surprising and no reasons appear to have been

put forward in explanation. No one can reasonably think of pointing out that the lands in Orissa are appreciably inferior in fertility to those in Madras and Bengal. And if there are certain lands which are not particularly suited to the cultivation of rice, there is no earthly reason why a more suitable crop should not be planted there.

It is not only on the average yield of any particular crop, but to a greater extent on the frequency with which land responds to the needs of the people during a given period, that the food supply and prosperity of a country depend. Different varieties of crops, besides making the diet more mixed and balanced improves the purchasing power of the farmer and creates a resistance against economic crisis, in case a particular crop is unfavourably affected. The following table indicates the extent of intensive cultivation in the different provinces.

Provinces.	Percentage of crop area cultivated more than once.
Behar	30 Per cent.
U. P.	25 ,,
Bengal	21 ,,
N. W. F.	17 ,,
Madras	17 ,,
Punjab	16 ,,
C. P.	13 ,,
Assam	13 ,,
Sind	10 ,,
Orissa	10 ,,
Bombay	4 ,,

In intensive farming, the lands of Orissa occupy a very inferior position in India. Only 10 acres out of

every 100 are producing more than one crop a year. It is true, in this respect, this province compares favourably with the Presidency of Bombay. But even there the picture is not complete. In Bombay, 30% of the land under cultivation is growing money crops, whereas foodgrains cover 90% of the crop area in Orissa. Commercial crops have occupied substantial position in the agricultural economy of certain provinces in India. It is common knowledge that foodgrains are the least profitable of all crops in normal times and food supply is ultimately a question of the peoples' income. Thus a cultivator growing money crops is in a position to have command over a larger quantity of food than his compeer producing foodgrains.

All these details have been furnished to explain that the export of rice maintained annually from Orissa is no indication of the food supply in the province. Her food position and immediate prospects are much inferior to what they are in almost every other province in India. The situation is even worse, when it is also remembered that she has not got the capacity to obtain foodstuff from outside. Industrially Orissa is the most backward corner of India. Only recently a modern paper mill has been established in this province. A small railway workshop, a small glass factory and two small sugar mills are the only industrial concerns. The large number of rice mills should not be included in the list. This gives a picture of the national income on which after all depends the food supply of the people.

The foregoing discussions conclusively show that 5 acres of land for an average family of 4.2 persons cannot provide adequate subsistence *everywhere*. And if this is considered to be so for certain other parts of India, the test, as a comparison, will be unsatisfactory for Orissa. A flat and uniform test like this is not merely misleading but might lead to a wrong directive. Any all-India food policy should be sympathetic to the component parts and shaped after necessary stock-taking with a view to a comprehensive development.

Different plans for economic development, official and non-official, have contemplated rebuilding of agriculture, though there is difference among them regarding the emphasis. One thing at least is definite that a country like India with such abundance of natural resources should be able to produce adequate food for all her people within

her frontiers. It is not the intention here to discuss the techniques of improvement. But the national diet in India has followed only traditions and has not been built up according to scientific requirements. Instances there have been in recent times where national diets in certain countries were reorganized. Attempts at such re-organization are essential for India and agricultural improvement must be shaped accordingly.

A fundamental consideration in the rebuilding of agriculture is the method of approach and the attitude of society. As long as a graduate of agriculture prefers to work as an overseer in a Government Farm, leaving his paternal acres in charge of ryots of no training and as long as a peon in a Government or Commercial Office is better off both in income and in social position than his unfortunate brothers toiling hard on the fields, any thorough-going improvement in Agriculture will not be possible. If a schoolboy negligent of his lessons is threatened by his superiors with the horrors of taking to the plough as the alternative means of livelihood, the social attitude towards cultivation will continue to be highly discouraging. The food producer must be assured of a decent income and a decent social status. And it is the responsibility of the society to secure these to him, in its own interest.

In such a large country as India, it does not make any definite meaning to talk of economic development in terms of generalities. Such development should not be piecemeal from geographical point of view. If industries are concentrated in particular areas or provinces, naturally to the detriment of others, national economic progress will not be possible. Regional distribution of industries must be a guiding principle of national planning, providing opportunities throughout the land. During the war period nearly 80 per cent of the increase in employment has been distributed in the provinces of Bombay, Bengal, U. P., the Punjab and Delhi.[6] Inequalities have become worse. It is a happy augury that Government are contemplating control and licensing of industries with a view to securing equitable distribution in the location of industries. Rebuilding of Agriculture is certainly necessary, but for the provision of proper and adequate food, Orissa should be made to keep pace with the industrial development of the country.

[6] THE ESTERN EAOONOMIST, IV-12, p. 351.

POST-WAR CURRENCY SYSTEM IN INDIA

BY

N. S. PARDASANI

Elphinstone College, Bombay

The international currency experience of the last quarter of a century has been marked by a rapid succession of alternating situations, as a result mainly of the dislocations caused by two world wars separated by the Great Depression of the thirtees. The variety of the practical problems raised against this changing background and the measures taken by different countries to solve the same have provided ample material for a more careful examination of the long-term objectives of monetary policy and a more detailed formulation of the appropriate system of currency. The recent trend of monetary discussions is, however, to emphasise that the true function of a currency system is not to prescribe an automatic mechanism but only to offer a suitable framework for the speedy and orderly achievement of the desired objectives. For this purpose, it lays down certain restrictions on the exercise of discretionary power by the Monetary authorities. The nature, range and intensity of such restrictions must be devised for a country in the light of its economic needs, the character and resources of its authorities and the prevailing arrangements and trends in other parts of the world. While it is true that the role of the currency system is essentially negative, and that a sound currency system is a requisite but not a guarantee of the appropriate monetary policy, neither this nor the other fact, namely, that the monetary framework itself has to be periodically reviewed to see if the facts on which it is based or the objectives for which it has been designed are still intact, destroys its utility over short or moderately long periods.

The question of an appropriate monetary standard for India has in the past aroused keen controversies. But, recent discussions in India have been so much taken up with the questions of volume of currency, price trends, exchange ratio and the repayment of sterling balances that the question of the standard has escaped the close scru-

tiny it deserves. And yet there are, at least, three main factors which appear to necessitate a re-examination of the whole issue. *Firstly*, it is now necessary that in devising a suitable system of currency in India, which will be serviceable in the near future, the requirements of a large-scale expansionist programme of economic development extending over a long period should receive precedence. *Secondly*, in view of a substantial measure of agreement on the proposals to get up an International Monetary Fund and an International Bank for Reconstruction and Development, cognizance has to be taken of India's prospective membership of such organisations. And, *thirdly*, the radical change that has come over the economic conditions of Great Britain as a result of the war must be examined to see how far it would affect the Sterling Exchange Standard from the point of view of India. There is a real danger that this problem may be largely by-passed on the ground that as nothing definite can be foreseen in the immediate post-war period, it would be advisable to wait and watch. An even worse danger is the advocacy of the sterling link *provisionally* for the purpose of deriving extra *immediate* gains, for it is in the immediate that India stands to lose the most. And, at least in one case the need for a provisional continuation of the link has been based on arguments which are either not temporary or are even likely to gather further force in years to come. This can be seen from the following paragraph from a paper submitted to the Pacific Relations Conference, 1945, through the Indian Council of World Affairs, by Dr. V. K. R. V. Rao.

"I have so far made the tacit assumption that the legal link between the sterling and rupee should continue at the end of the war. I see *no practical alternative* to this assumption. For various reasons, it is not possible to think of independently linking the rupee with gold, as long as we do not have enough reserves of gold and, further, do not know what is going to happen to gold in the post-war period. As for linking the rupee with the dollar, it is an undeniable fact at the present moment that *our trade relations are much more with countries in the sterling bloc than* with the United States of America; and the fact has also to be faced that it would be *much easier for us to realize our sterling balances* if our currency is linked to sterling rather than to the dollar. Moreover, *with the crea-*

tion of the international currency organisation the link with the sterling will not have the disadvatnayes that would have accompanied such a link in the pre-war world." (Italics mine). From this Dr. Rao concludes that the link with the sterling should not be abandoned in the immediate post-war period.

It is difficult to see why, if these arguments are tenable now, they should not remain so for the next ten or fifteen years. The repayment of India's sterling balances, assuming that it will be facilitated by the link, will not be completed in the immediate post-war period. That our trade relations are with countries within the sterling bloc is an argument which, if anything, is likely to be strengthened by the very maintenance of the sterling link. And that creation of an international currency organisation will remove the disadvantages which the link involved in the pre-war period would make the sterling all the more acceptable to us for an indefinite period. It is noteworthy that the sterling link is advocated not only until such time as the International organisation is set up, but, even after, though what the "disadvantages" of the link are and how they will be removed is not shown. It is not, I think, correct to say that the only alternatives to the sterling link are the link with the dollar and an orthodox link with gold, when the International organisation referred to above, is providing for a link with gold, subject to the international revision of the par value. The question has to be more thoroughly discussed and cannot be disposed of in such a casual manner. Though the question of linking the rupee to the sterling was discussed at length in India in 1931 and after, the problem has to be reconsidered since some of the arguments advanced, then, for as well as against the link, are no longer tenable and new arguments have appeared on the scene.

For a detailed examination of the issue, we may first scrutinize the arguments against the setting up of a Sterling Exchange Standard, contained in the Report of the Royal Commission on Currency, 1926. The chief arguments on which the Commission based its case were :—

(1) that the mechanism of any exchange standard was too complicated and that its working would lay the authorities open to suspicion that they were manipulating the mechanism of exchange ;

(2) that in an exchange standard a rise in the price of silver above the melting point would involve the disappearance of the coin ; and

(3) any heavy depreciation of the sterling was likely to cause much dislocation in the exchange and internal prices.

The Commission's arguments were no doubt defensible at that time when there was available the alternative of a Gold bullion standard. But any use of the first two arguments now would be misleading since the choice is not between a "simple, certain and conspicuously visible system," on the one hand and an exchange standard on the other, but between two systems almost equally complicated. The danger of manipulation referred to by the Commission can, in theory, be avoided only by having an automatic system like the Gold standard on orthodox lines, which is now out of the question. Further, in view of the chaotic reduction of the silver content of the rupee, the melting point of the coin has been pushed so far that there is no danger of the disappearance of the rupee. And the argument against the undesirable consequences of a possible depreciation of the sterling contains considerable force only, if its implications are properly brought out. Taken literally, the argument may not always appear tenable, for depreciation of the sterling may sometimes produce desirable consequences and can be a handicap only if it is undue or ill-timed. In fact, the depreciation of the sterling was actually used in 1931 as an argument *for* linking the rupee to the sterling. Besides, it is also arguable that fluctuations in the value of the sterling constitute a valid objection only if the alternative standard available is *less* liable to such fluctuations. In actual fact, the main reason why a number of non-Empire countries voluntarily joined the sterling bloc after September 1931 was the comparative stability in the value of the sterling. Thus *under certain circumstances*, the possibility of the depreciation of the sterling may be no argument against linking and may even be an argument for it. But there is another question which is suggested by this argument, namely, the advisability of tying up of our currency with the sterling whose direction of fluctuation, rather than its degree, may be inconvenient to the rupee. If there is reason to believe that the factors governing the trend in the value of the sterling have any parallel significance in India so that no violence will be done to

conditions in India in maintaining the link, the argument of the Commission will not apply. But neither the fundamental differences in the economic needs and conditions of Great Britain and India nor their divergent immediate problems point to any such identity. In fact, it is difficult to see why a large, backward country, predominantly agricultural, with potentialities of rapid development and with a pressing programme of long-period planning should voluntarily restrict its liberty by agreeing to keep the value of its currency stable in the terms of the currency of another country. Besides, the immediate problems which Great Britain and India have to face are likely to lead a clash of interests. Great Britain is vitally interested in resuming its industrial leadership, restoring its pre-war standand of living now broadbased on the pillars of social security, and wiping out its international obligations incurred during war-time, so as to emerge again as a Creditor Country. She has also to be prepared for a number of difficulties in its path including the problems of reconversion at home, a substantial rise in price-level when war-time restrictions are relaxed and keen competition in international trade. India, on the other hand, is interested in getting full value of its sterling balances so as to be directly helpful in its task of economic development, in adopting a vigorous tariff policy to meet the competition of imported manufactures, coming chiefly from Britain, lowering its war-time price structure to reasonable levels and securing maximum financial help and co-operation from other countries to raise its general standard of living. It is not difficult to see that in many specific issues, India as a member of the sterling bloc may not be allowed to pursue its own policies and the interests of the Empire in general and of Great Britain in particular, may be given preference. The chances of this are further analysed below.

In the meantime, it is necessary to say that the issue involved is not as simple as it is made out by those who reject the sterling link on the ground that internal stability is preferable to external stability, in the case of India. While an undue emphasis on external stability has undoubtedly been the chief drawback of Indian Monetary Policy in the past, and any rigid adherence to the sterling link at a prescribed parity will leave the internal price-structure to be determined as a by-product, it does not follow that a monetary system aiming only at internal stability," how-

ever, that may be defined, will be a desirable alternative. In fact, the sharp line of distinction between internal and external stability should be recognised to be only of a limited significance, since the mere pursuit of internal stability is not only likely to cause grave dislocation in international trade and thereby to diminish the advantages which a country derives from the international division of labour, but will also, by allowing violent fluctuations in the prices of internationally traded goods, create sources of great instability in the price-cost structure. While the present opinion in favour of internal stability is a legitimate reaction against the policy pursued in the past, the real problem is to combine, in practice, a large measure of internal and external stability.

A number of arguments which were put forward in 1931 in favour of linking were concerned chiefly with pointing out the advantages to India of having *some* measure of external stability in a world in which the fluctuations in the value of gold and the competitive depreciation of currencies were causing a degree of instability which was fatal to the maintenance of the volume of international trade. The argument had, no doubt, some force then. But those who advocate the retention of the link now should show what special advantages of that system will be, when the outlines of an international monetary agreement are being worked out.

A case for a currency bloc can be defended either on purely sentimental or political grounds or on the basis of the existence of such a close community of interests as to make the functioning of a single monetary policy desirable. In the case of India not only are there no sentimental ties with the United Kingdom and the Dominions but there is a growing resentment. It has also been shown that the economic requirements of India in the near future will in many cases clash with the interests of Great Britain. It is, however, possible to argue in the abstract that the sterling bloc may come to represent a cooperative pooling of the resources of its members so that any member may in times of difficulty, avail itself of the foreign currency resources of other member countries, and in view of the almost certain unfavourable balances of trade which India has to face in the near future, this may be a welcome advantage. But if we consider that for the next ten or fifteen years at least, Great Britain will be faced

with a severe shortage of dollars, the danger is that instead of helping India to get necessary imports from abroad, it may appropriate such foreign currency resources as accrue to India by virtue of her own export surplus to those countries.

There remains, however, one argument still which is likely to command popularity as it possesses a subtle appeal; and that is, that the repayment of India's credit balances in sterling would be expedited if India joins the sterling bloc. This is a strange variant of the old argument that since India was a debtor to the United Kingdom, it was necessary from the point of view of its budgetary stability to keep the value of its currency fixed in terms of the pound sterling. Now that India has been temporarily transformed into a creditor of the United Kingdom, the need for maintaining a link is again emphasised. But the pertinent question is: how and why will the repayment of our sterling balances be rendered easy? The answer to this is, I think, somewhat on the following lines. With the rupee linked to the sterling at a statutory rate which will obviously remain stable over long periods and which will rule out the possibility of measures of exchange control against the pound sterling, the United Kingdom will be able to export goods to us without having to bother about any exchange difficulties. Any export surplus which ensues to the United Kingdom will mean an automatic repayment of our sterling balances. If, on the other hand, the rupee is an independent currency or is linked to gold or the United States dollar, the United Kingdom's ability to repay our balances will depend on the extent of her favourable balance with the world as a whole, and here again India's claims can be considered only along with the corresponding claims of other creditors of the United Kingdom.

This argument is open to two serious objections. In the first place, there is not only no guarantee that in this way the sterling balances will be repaid but it is very unlikely to be so; for the United Kingdom will be interested in exporting to us goods only up to that point where its favourable balance of trade with us can absorb our foreign currency resources acquired as a result of our positive balances with other countries. Any surplus of exports over this will, from the point of view of the United Kingdom, constitute an unnecessary diversion, resulting in adverse balances on current account

abroad. It is well known that the chief problem before the United Kingdom in the near future will be to find export markets that will give it the necessary purchasing power to get in return essential supplies from the United States and other hard currency countries for the maintenance of its standard, *apart from the question of paying off its war-time obligations.* In fact, the determination with which the United Kingdom seems to have resolved on giving priority to the restoration of its standard of living would give the impression that the payment of sterling obligations to countries like India may be shown to be an impossibility. A plausible case for this can be made out by the United Kingdom by pointing out her large sacrifices during the war, her loss of markets abroad due to growing industrialisation in the Dominions and elsewhere and the exceptionally strong position of the United States, whose industrial war effort was superimposed on the country's normal peace-time level of production and has disclosed certain unused margins which are now likely to be diverted by her to production of goods required for peace-time. Her industrial efficiency, capacity to offer extra credit facilities and full employment policy together with her high tariff, may all lead to "export surplus" which may ruin the chances of the United Kingdom achieving her object. The only way to take exception to the future policy of the United Kingdom would be to question her need for restraining her pre-war standard of living which, in view of her changed economic position in the world, is too high. But those who believe that by joining the sterling bloc, India will get her sterling balances easily do not show any appreciation of the difficulties in inducing Great Britain to realise this.

Secondly, in so far as the United Kingdom does allow us to get back our balances in the shape of an export surplus of goods, it will be under conditions in which the interests of India may be seriously prejudiced in the matter of the composition of the goods we receive. The United Kingdom, finding it really hard to export certain types of goods to other countries, may foist those on India while the other countries will buy only such other goods from the United Kingdom as cannot easily be obtained by them from elsewhere. The competitive advantage of India will thus be reduced, and the extent to which it receives supplies of consumer's goods from the United Kingdom may ot

only cripple its own industries but also diminish its power to purchase goods from countries outside the sterling bloc. Since the strength of the sterling vis-a-vis other currencies outside the bloc will be a matter of concern to India, the latter's foreign currency resources will be pooled together and thus be made available to all countries. One important result of this will be to prevent India from buying goods from outside the bloc on the plea of economising the Empire resources of foreign currencies. Thus the sterling link will give a deliberate twist to the direction of our foreign trade and may, in practice, amount to a direct surrender of the demand for the multiconvertibility of our sterling balances. Looking to our political status, it is unlikely that we shall have an important voice even in the disposal of the foreign currency balances as accrue to us from time to time and our programme of economic development may thus be made entirely dependent on the magnanimity of the United Kingdom.

A MONETARY SYSTEM FOR INDIA

BY

V. M. PARANJAPE, M.A.

Poona

> "In the strictest sense no such thing exists as a financial impossibility. Finance is merely a mechanism for enabling the assembly and dispersal and functioning of economic force. A country may break because it has not enough munitions or food ; it cannot break because it has not enough money."

> —*H. O. Meredith* (*Finance of War, Political Quartely, 1940*)

> "The State in matters of finance is in a different position from any private citizen or association of private citizens ; it is able to control money in place of being controlled by it. Many of the mistakes of the past have arisen through failure to make this fundamental distinction."

> —*Sir William Beveridge* (*Full Employment in a Free Society*)

I

A monetary system is an instrument, albeit a delicate instrument of making a monetary policy effective. The monetary policy is also not an end in itself ; it has to subserve economic objectives which the State places before itself. The economic objectives, therefore, become the prime determinants of monetary policy and the monetary system has to be so framed as to make it a plastic and pliable instrument of monetary policy. In the next section an attempt will be made to state what it is that we would like our monetary system to achieve.

II

The striking feature of War-economy in India was the creation of a sellers' market for labour of all sorts. This creation of the sellers' market was a result of inexorable war-demands and is likely to cease with the cessation of astronomical war-expenditure. Taken together, the total war-expenditure on behalf of the Allies and of the Government of India, has been estimated at Rs. 900 crores per annum and the increase in employment (primary and

secondary) at between 8 to 13 millions (*vide* Dr. V. K. R. V. Rao's article in 'COMMERCE,' 8th September 1945. Dr. Rao himself regards the latter figure as an over-estimate and puts the figure at 8 millions). If we take dependents into consideration, it means that the cessation of war-expenditure would adversely affect incomes of roughly 10% of the population. Here we have deflationary impetus to our economy. .This will go on magnifying itself, as the multiplier is put into reverse gear with adverse effects on secondary and tertiary employment and incomes. The disposal of 'Surplus War-Stocks' of both the Allied as well as the Government of India, is likely to exercise a downward pressure on our prices. Besides, the policy of imports of consumers' goods in league with the British Export drive (Britain must 'export or die') is bound to contribute its own quota to the downward tendency of prices. The cumulative effect of all these is bound to be a fall in employment and incomes.

In this bleak picture, are there any forces making for a reversal, or at least a stemming of the tide? Firstly, it has been pointed out that the Indian Army would be maintained at a strength higher than the pre-war; we have indeed to be grateful for small mercies, but is the strength likely to be anywhere near the war-level? On even the most optimistic estimates we cannot think of any such possibility. (In fact, if the recent Press communique announcing the demobilization, in coming 8 months, of 8,50,000 persons, is any indication of the policy of Government, there is very little ground for optimism.) Secondly, it has been argued that the world-shortage of food-stuffs and the reconstruction demand of devastated areas, are likely to exert a pull on the prices in the upward direction; no doubt there is some truth in the argument, but we have to remember that these needs can be met by the agriculturally-advanced countries like Australia and Canada and by industrially-advanced countries like the U. S. A., whose production will be geared to peace-time demands. In neither agricultural nor industrial production, is our competitive position satisfactory in the world market, the impact of world demand is likely to be felt by isolated commodities like tea; what will happen to jute is a moot point; it will be safe to observe that world demand is unlikely to fill the vacuum created by a fall in war-expenditure.

There is another factor on which people have banked without adequately assessing its strength, namely, the "backlog" of purchasing power represented by savings and hoarded currency. This has often been put forward as constituting pent-up demand ; but how far is it likely to give an upward spurt to prices ? For the price-level, what is significant is not merely the absolute amount (which in the Indian context has been put by the EASTERN ECONOMIST at Rs. 200 crores) of this purchasing power but its distribution among the various social classes, for the price-level is a function of total expenditure on consumption and investment. What is the distribution-pattern of War-savings ? The war has hit the fixed-incomists and transferred their savings to the black-marketier, the industrialist, the big agriculturist, etc. The wage-earners have not gained, except in the volume of employment. The small agriculturist has used the increased earnings to write off a part of his debt. In many cases he has sold out his land, and become a 'landless' labourer. The conclusion to which this analysis leads, is that the savings are owned by the 'Upper Tenth' of the society, whose ranks have been considerably swelled by the 'nouveaux riches'. This class must spend these savings in consumption and on investment. By its habits, the 'Upper Tenth' is a class with a low propensity to consume ; however, to the extent to which these savings are a result of 'postponed consumption', they would meterialize as effective demand, not for goods internally produced, but mostly for imported luxuries ; that would mean only a dissipation of our sterling assets (as these imports would consume 'income' without creating employment internally). The amount available for expenditure on goods internally produced would be a mere bagatelle, and can hardly be such as to allow breathing space for a transition to a new equilibrium. Whether these savings would be invested and whether they would help in generating employment and incomes, is a matter dependent upon the extent to which Government succeeds in creating a psychology of rising prices through lower interest-rates and allied measures. In the next section we shall consider how this can be created and full-employment (recognizing no other limit, but of our resources) maintained.

III

From Knapp's "Staatliche Theorie" to Keynes' "General

Theory" is a far cry, and we have moved from a position, when it was thought that the State was a creator of 'Geldung' to a position where the State has become also the creator of 'Wert'. (By this we mean that the State is not merely a creator of money, but that it can and must determine its purchasing power by appropriate controls. It must be conceded that Knapp had an inkling of the modern idea but we do not find it stated explicitly in his book). We are all Keynesians now and no apology is needed for advocating a policy of monetary expansion. But what is so seldom realized is the fact that expansion has no dangers within the frame-work of a planned economy and that the dangers of such an expansion developing into an unbridled, sky-rocketing inflation are magnified, out of all proportion, for the State can stabilize the price-level, by various methods such as higher taxation, borrowing, rationing, price-control etc.

We have, therefore, to adopt a planned economy with an expansionist programme, if our price-level is to be prevented from tobogganing and landing us into a slump. We shall have to take our unexploited resources (or inefficiently exploited) and the vast reserves of man-power as our data and frame, place Beveridge, a 'human budget' keeping our monetary demand (total stream of expenditure, public and private) at a level sufficient to buy at current prices, all the goods and services that are being produced, at the particular stage of our planned economy. If the public and private expenditure does not come up to this level, the State must fill the deflationary gap and if the total expenditure is greater than this, the State must syphon off the inflationary gap. (This is a variant of the principle of 'Functional Finance' adumbrated by A. P. Lerner.)

It is here, that the budgetary policy ties up with monetary policy. The deflationary gap should be filled by 'Created Money'. 'Created Money' will turn our pent-up demand into effective demand, either for capital goods or consumers' goods, depending upon the various psychological reaction of different individuals. The dangers of 'Created Money' like the report of Mark Twain's death has been 'greatly exaggerated'. 'Created Money' is borrowing at zero-rate of interest. Besides, as the technique of deficit-finance shows, the budgetary deficit tends to correct itself, through increased tax-receipts. No doubt 'Created Money' would

mean, at earlier stages, full employment at a low standard of living (considering the low proportion of capital to labour, dictated by our available resources). It is also not suggested that the Created Money is a deux ex machina which obviates the necessity of tightening our belts. It is only suggested as a method of canalising savings. Its inflationary effects can be checked by appropriate controls. Critics may argue that a regime of controls may place us on the 'Road to Serfdom', but it ought to be remembered that a regime of controls is preferable to one of starvation plus freedom. Besides, as the real income steadily increases, the standard of living will also increase.

IV

Such a monetary policy requires a monetary system that can provide an elastic 'money-supply'. How far are our present monetary arrangements suitable to the execution of such a policy ?

Under the existing arrangements, through the provisions of the Reserve Bank Act, the Bank has to maintain a backing for its currency in gold, sterling and rupee securities. Now, the inclusion of the sterling and gold into the 'Backing' has been the outcome, of a constant fear, on the part of the Government of India, of our having a passive balance of payments vis a-vis Great Britain and the consequent difficulty of finding sterling to meet its sterling liabilities in the form of pays, pensions etc. Gold was given a place also to create confidence in the currency.

With the repatriation of our sterling debt and the provision proposed to be made of a separate fund, for pays and pensions etc., we need not suffer from all the evils from which we have suffered. There need not be the fatal preoccupation with the exchange rate, which subordinated the needs of our internal economy to the exigencies of the exchange rates, there need not be an expansion or contraction of our monetary circulation in response to expansion or contraction of sterling holdings. If the system is continued, it will be an anachronism and, therefore, it should cease. The system hardly suits our needs ; it is inelastic, mechanical and wooden. During the war, it has acted as a good conductor for export to India of British domestic inflation, in the present context, it is likely to exercise a contractionist influence, which we want to avert.

Apart from the sins of omission and commission of which the sterling link has been guilty, there is another cogent and weighty argument, which will justify the dissolution of this unholy matrimonial alliance. The argument goes down to the very fundamentals. What, it may be asked, is the function that 'cover' or 'backing' for currency is expected to fulfil? And how far can gold and external assets fulfil their function?

As already stated, the 'cover' is expected to create confidence in the currency. It is also expected to maintain the stability of the purchasing power of currency. Let us see how far these functions are fulfilled by use of external assets as "cover".

The war-time experience is a significant pointer to the fact that the confidence in currency is a matter not of 'cover' but of confidence in the Government which controls the currency authority and that there must be something wrong with a Government that makes external assets serve as cover for its currency and thus proclaims that its citizens have a greater faith in the credit-worthiness of a foreign Government than its own'. Besides, the liquidation of sterling debt has knocked the bottom out of any argument that could be trotted out to support the use of sterling as cover. The case is whittled down still further if the asset used is of doubtful value.

How far do external assets especially gold, prevent fluctuations in the internal purchasing power of money? The showing in this respect is not a satisfactory one. Even a cent per cent backing would not have prevented inflation in India and sterling, no more than gold has given a downward impetus; if at all, it has thrown its weight in the opposite direction, by acting as a lever of war-inflation.

Externally the assets have been kept in order to meet deficits in the balance of payments whenever the latter turns passive. For this purpose, it is no longer necessary to keep external currency reserves as 'cover' for the International Monetary Fund is designed to cover deficits in the balance of payments on current account.

Besides, the use of external assets as cover conflicts with their use as international purchasing power, constituting to that extent a short-fall in world effective demand. This is a deflationary influence for the world-economy as

a whole. In the Indian case, the use of sterling as cover prevents our using these assets as purchasing power abroad unless we float a rupee loan to replace these assets. Such an idea is to be ruled out as it would exercise a deflationary pressure on our economy.

The conclusions to which the above discussion leads us are :

(*a*) In the interests of full employment an expansionist monetary policy is desirable.

(*b*) Such a policy is likely to be effective only with a more elastic monetary mechanism.

(*c*) Use of sterling as 'cover' precludes autonomy and elasticity.

(*d*) For our purposes a system in which only the Government of India securities are used as cover will be more suitable.

(*e*) Whatever justification existed for the use of sterling as cover has disappeared with the proposed inauguration of the International Monetary Fund.

V

External Policy . In the past, our internal monetary system was fitted into the Procrustean bed of our exchange requirements ; it is high time that this condition of the 'tail wagging the dog' should cease and our exchange rate be set in tune with the requirements of our external monetary system.

Ideally, for a planned economy, a variable exchange-rate is the best, (as by varying it, we can determine how much of the incidence of external changes we are to bear) ; but our obligation to join the International Monetary Fund rules out any such possibility. And since we have to fix the parity, 60 days before the inauguration of the Fund, (*i.e.* 60 days before 31st December 1945. It should be noted that the parity is to be fixed with gold or U.S. dollar as in June, 1944 but as our link to gold or to dollar is via the sterling, we have to think of the rupee-sterling rate), we cannot afford to sit on the fence. If we cannot pitch upon a particular rate, we shall be justified in considering whether

the rate should be lowered or raised. This is vital, for the rate once fixed cannot be varied by more than 10%.

To attempt to fix the rate when the outlines of sterling and dollar policies are still blurred and their mutual relations unknown, is like attempting to steer a ship without a compass and the discussion below is vitiated to that extent. But we cannot afford to wait for the coming slump which has already cast its shadow before.

Secondly, the criteria that the Purchasing Power Parity Theory, (which at the best of times, is a mere truism) suggests for fixing exchange rates,—the price-levels in various different countries—are no longer the result of the free forces of supply and demand; but they show wide disparities as the result of differing degrees of inflation-cum-war-control. Naturally their adequacy for fixing exchange-rates, is greatly minimized. We are, therefore, deprived of this tool of analysis through lack of comparability of data.

The other tests suggested for fixing exchange-rates are the budgetary equilibrium, the balance of payments, the effects on inter-class distribution etc. In an unplanned economy the monetary policy may be guided by a 'tout ensemble' of all these tests; but in a planned economy, these considerations must take a back seat; in a planned economy, with an expansionist programme the exchange-rate should be determined by reference to one consideration only. Does the exchange rate help the policy of raising the price-level? Besides, the deficit in the balance of payments can be met by borrowing from the Fund; (it should be emphasized that the Fund will cover only marginal debits and credits; an ideal solution will therefore be a Government monopoly of Imports and Exports, but it is not known whether this will be regarded as a 'discriminatory trade practice? The budgetary disequilibrium has ceased to be a bogey with the development of the theory of Deficit Finance; and the intra-class injustice arising from a maldistribution of the benefits flowing from particular exchange-rate can be corrected by an appropriate tax-policy and by grant of subsidies.

Judged from this point of view, a depreciation of the rupee seems desirable. The case for the appreciation of the rupee needs to be considered, because of its having the support of no less a person than the Governor of the

Reserve Bank. Speaking at the Rotary Club, he said, "We ought to get busy with our development-planning and consider what sort of controls and exchange-rate would be appropriate in the circumstances of the case, the objective being the establishment of a suitable surplus of imports from the United Kingdom over exports representing the repayment of our sterling balances". (Quoted in the EASTERN ECONOMIST, dated, 27th October (1944). A rate which will serve the early repayment of our sterling balances is an appreciated exchange-rate. At the outset, it must be mentioned that the case for appreciation of the rupee has vanished with the cessation of hostilities. Because of an undervalued rupee, we have suffered during the war all the ills of war inflation. An appreciation of the rupee would have meant a smaller volume of monetary expansion, though it is problematic whether it would have prevented the accumulation of sterling balances (under the inexorable strain of British war-demand for rupee-finance). In the present context, an appreciation of the rupee would merely mean frittering away of our sterling balance. There will be a repetition of the tragedy of the Two-shilling Rupee.

Though an appreciated exchange may secure an early repayment of our sterling balances, it is of supreme importance to realize that sterling balances are in the nature of capital assets and that they should not be frittered away in an effort to import consumer-goods. Above all, it would be best to settle the problem through "unilateral commodity payment" by a long-term bilateral agreement, spacing out payments over a period of years. This will prevent the primary and secondary burden of unilateral transfer pressing on the exchange-rate and thereby transmitting itself to our internal economy. The State would buy goods abroad; these will be mostly capital goods ; and the State may own and manage these or lease them to the industrialist. Such a policy will prevent the downward pressure of the sale of these goods ; incidentally it will also help the nationalization of industries and elimination of private ownership of the means of production.

And now let us see how far a policy of appreciation of the rupee can square with the policy of a high price-level and high incomes and employment ? The policy of the appreciation of the rupee will obviously be seen to run counter to our professed objective. It will tend to depress

the price-level by improving the competitive position of British goods *vis-a-vis* Indian goods. The Indian market being a price market the appreciation of the rupee means a terrific blow at our nascent industries.

What can be set as arguments in favour of a policy of depreciation ? Firstly, we would have to recognise the fact that some of the secondary effects of an increment in net investment are bound to be 'spilled-over' through an increase in the propensity to import. Besides, a policy of internal expansion means falling exports. The falling tendency of exports can be counteracted by a depreciated exchange. This tends to increase exports and help to maintain the balance of payments on an even keel. Secondly, considering the limited elasticity of variation allowed under the International Monetary Fund, it would be wise to depreciate at the outset so as to make the most of limited variation allowed later. It has been contended that the depreciation will mean a fall in 'customs' receipts and that it would adversely affect the consumers (who do not after all constitute the bulk of the total population since most of the imports consist of luxuries which do not enter into the budget of the average Indian). As to the fall in customs-revenue, we have to set against it the increased income-tax receipts and increased receipts from indirect taxes, for increased incomes are bound to increase these receipts. In the last resort, justice in distribution can be attained by the use of weapon of taxation. The adverse effect on the manufacturing class can be met by the novel arrangement already proposed in connexion with sterling assets, namely that of Government buying the capital goods and 'leasing' them to the industrialist. The policy is also likely to benefit our agriculturists (to the extent to which they depend on export markets) and thus give an upward spurt to prices.

VI

To sum up : a depreciation of the rupee in conjunction with a policy of monetary expansion internally through an elastic monetary mechanism based on fiduciary fiat money is likely to be the best means, if we want to launch upon the "Adventure of full employment". We are, so to say, at the cross-roads and we have to choose between overall planning and laissez faire. It is obvious that it is only through the former that our economy can be prevented from slipping into a depression.

POST-WAR MONETARY SYSTEM FOR INDIA

BY

V. G. SAHASRABUDDHE, M.A.

S. P. College, Poona

ASSUMPTION OF THE ESSAY

What follows is written on the assumption that in post-war India a national Government with full control over monetary policy and mechanism will be established. National Government for purposes of this essay is defined as any Government which will put purely Indian interest in the forefront of its policy. The post-war monetary policy of India can be discussed with reference to any one of a number of possible assumptions. It can be assumed for example that the International Monetary Fund will be an actuality and membership thereof will be forced on India. In that case the discussion will have to be confined to finding out a monetary system for India which will be compatible with the provisions of the Fund. Alternatively it can also be assumed that India's political dependence, sterling bloc, International monetary chaos and all these pre-war factors will continue to operate in the post-war period. In that case the discussion of monetary policy for us will have to concentrate on the proper Rupee-Sterling Ratio which will enable us to make the best of a very bad situation. Many other assumptions are possible and if the assumption of a national Government in the way defined above is chosen here it is not because it is believed that it approximates more to the possibilities of years to come but because it gives greater scope for elucidation of ideas contained in this essay. It is just a garb to say what should be our monetary policy rather than what it will have to be. It is claimed however that the assumption is not far-off reality in the sense that in future it will be more difficult than ever before for our rulers to impose on us a monetary policy which is not in our interests.

MONETARY POLICY HAS NO ABSOLUTE ENDS

Discussion of monetary policy appropriate to any time and place is intelligible only if it is carried out with

reference to the economic policy of the place and time in question; for, as is now agreed on all hands, *Monetary policy has to be a handmaiden of general economic policy.* It follows from this that monetary policy has no ends of its own and that its contents therefore must differ from time to time and place to place. Given the objective of economic policy and the conditions under which it is to be achieved the monetary policy should aim at such an adjustment of what are called monetary factors in the economic situation that it will help the attainment of the given objective or to put it negatively will not at least hinder it. Monetary factors in the economic situation are the Quantity of Money, the internal price-level, the rate of exchange with other currencies. Monetary authority may desire stability in any one, all or none of them. What is desirable and what is practicable are two different things. Monetary authority may appreciate stability in all these factors but both economic history aud economic theory agree in that such a thing is unattainable. Stability in none is more practicable but historically at least economic theory is biassed against such a proposition because it is feared that not to stabilise any one of the monetary factors is to open the way for uncontrollable disturbances in economic activity. For these reasons, the choice has been in favour of stability in terms of that factor fluctuations in which are regarded as most disturbing for the economic activity. Modern monetary theory, it should be noted, however, recognises the fact that there might be certain objectives of economic policy which make monetary stability either impossible or undesirable or both *e. g.*, financing of war. It is in the light of these things that India will have to decide whether to strive for monetary stability at all and if so what it is that should stabilise.

POST-WAR INDIAN MONETARY POLICY SHOULD CATER FOR AN EXPANSIVE ECONOMY

A discussion of the post-war Indian monetary policy is possible only if it has reference to the post-war objectives of Indian economic policy and the objective conditions under which they are to be attained. It is difficult to lay down precisely what should be or is going to be our post-war economic policy; but for purposes of this essay a broad statement will suffice. Without fear of contradiction,

it can be said that in the past-war years India is going to enter upon an era of expansive economy, an era which will find expression in increased national production. This broad statement begs the question of planning and/or the question of the actual plan of economic development which India may adopt. These questions are left out of discussion because there is a possibility of disagreement on these points and because a currency system which is so devised as to facilitate increase in national production can be altered without difficulty to suit the requirements of planning or of any particular plan. *To cater for an expanding economy should then be the primary objective of our monetary policy.* Monetary situation created by the war will be the objective background for the post-war monetary policy. This background is coloured by the twin growth of Sterling balances to India's credit and the quantity of internally circulating currency, both of which have grown to unprecedented extents. The increase in the internal purchasing power which has not been compensated by equivalent increase in production has resulted in considerable increase in the price-level *i.e.* lowering of the internal value of currency. Externally the rupee has been kept pegged at the official rate of 18 d. but it is well known that at this rate the rupee is considerably overvalued though it is difficult to say precisely to what extent. Out of the factors of the present-day monetary situation that have been enumerated here, the accumulation of Sterling balances represent our purchasing power abroad and as this huge purchasing power has been piled up as a result of the colossal sacrifices on the part of the people of this country, it will be a folly to allow it to go waste. *The effective utilisation of our Sterling assets thus has a claim to be considered as a secondary objective of our monetary policy.* Fortunately this secondary objective can be made compatible with the primary objective of helping an expansion of our economy.

It is now possible to turn to the question of the actual content of our post-war monetary policy. In deciding upon them *India will have to take decisions on the following points* :

(*a*) Choice of the Monetary Standard and arrangements about the liquidation of the Sterling balances in the event of such Monetary Standard being chosen that their automatic liquidation is not possible.

(*b*) Policy regarding internal circulation with reference to the quantity of money and the price-level.

(*c*) Attitude towards the International Monetary Fund.

These matters are discussed below seriatim:

(*a*) *STERLING LINK SHOULD BE THE FIRST VICTIM OF POST-WAR MONETARY POLICY*

The first decision which India will have to take will be whether to continue the Sterling link or not. The consensus of Indian opinion seems to be against its continuation. This is not only a matter of political sentiment, which undoubtedly plays its part in shaping public opinion, but also of economic reasoning. Historically Sterling link which implies stability of the rupee in terms of Sterling has meant (*i*) instability in terms of internal price level, and (*ii*) of ratio with currencies other than Sterling whose relations with Sterling were not stable. These instabilities have had serious repercussions on Indian economy and even the boon of stability of the rupee in terms of Sterling which the Sterling link is said to have conferred on us has been of dubious value because the legal ratio was changed a number of times and it is easy to show that changes therein were not always guided by a consideration of Indian interests. Quite apart from that the old arguments in favour of Sterling link *viz.* strength of Sterling in the world market, India's Sterling debts, India's trade with the Sterling bloc have now lost whatever little force they had. Sterling is now dancing to the tune of Dollar; India is now no longer a debtor and her trading relationships extend far beyond the boundaries of the old Sterling bloc. Besides this, at present there are other serious objections to the continuation of Sterling link. The link necessitates fixation of a ratio between Rupee and Sterling and care has to be taken to see that the ratio reflects fundamental economic conditions and that it is altered when these conditions change. Due to war, price-levels, debtor-creditor relationships, industrial structures, channels of international trading relations, have altered beyond recognition and this calls for revision of pre-war parities. The task is delicate because *nothing is more disastrous to economic activity than a wrong ratio.* The task is not easy and the discomfort felt over it even by currency experts is obvious from the fact that all the currency plans

hitherto released including the final draft of Bretton Woods have failed to lay down the guiding principles according to which the exchange rates could be fixed. What they have suggested is at the most application of rudimentary practices rather than a scientific approach to the problem. Failing any other sound criterion, the Bretton Woods agreement provides for the fixation of ratios at the levels prevailing on the sixteenth day before the entry into force of the agreement. This shows how arbitrary the whole thing is going to be. This does not mean that there are no guiding principles in this respect and one might agree with Frank Tamagna who in an excellent article in March 1945 issue of the AMERICAN JOURNAL OF POLITICAL ECONOMY says that 'an appropriate ratio is one which permits the restoration of balance between costs and prices to take place after the war without deflationary pressure' or that the 'choice of an equilibrium rate should be related to the prospective exports and imports of goods and services,—allowance being made for debit or credit position on long-term capital account' but one has to conclude with the same writer that these principles 'do not provide a good-for-all formula and do not facilitate a statistical calculation of post-war exchange rates.' Statistical equipment for such calculation does not exist and no country can determine without reference to other countries its prospective foreign trade. Under these conditions fixation on the part of India of any ratio now will be premature and unwise while continuation of the present ratio in the knowledge of altered circumstances will be criminal. It seems therefore better not to have any statutory ratio at all.

Difficulty of finding out a proper ratio is not the only argument against Sterling link. There is another and more serious objection to it. Under provisions of that link, monetary authorities are obliged to keep a certain percentage of Sterling securities as backing for the quantity of currency in circulation and this virtually takes control over internal circulation out of the hands of the monetary authority. This will be a handicap to India in the post-war years for two reasons. Firstly, internal circulation of India cannot be so rigidly determined as to fall in line with the rules about Reserves. Secondly, deflation must necessarily follow the depletion of our Sterling assets through their utilisation for purchases abroad. No answer has yet been given to the contention so forcibly

made by Prof. Vakil that our present currency system links in an undesirable way the problems of currency circulation and disposal of Sterling balances. *Delinking* which involves release of Sterling assets from their present function of backing internal circulation *is the only way out of the situation.*

GOLD STANDARD NOT A SUITABLE ALTERNATIVE

Gold Standard, Dollar-exchange Standard are some of the alternatives which have been suggested to Sterling-exchange Standard. All of them, besides being open to the same objections as the Sterling-exchange Standard, viz. they leave no liberty to Monetary Authority in matters of internal circulation, they amount to worship of exchange stability, suffer from an additional defect of being impracticable under the present Indian conditions. To make them practicable, we will have to build up Gold and/or dollar reserves. This is impossible, because (*i*) sufficient amount of them might not be available. We have no dollar resources. Our Gold assets constitute only a negligible part of our currency resources if we take into consideration the quantity in circulation. Even if gold which is a part of our currency reserve is revalued and its value is regarded as doubled still it would represent only a small percentage of our circulating currency. Gold Standard thus without a considerable deflation is impossible. (*ii*) Possibility of purchasing the necessary resources abroad or of mobilising internal gold hoards for that purpose is not ignored but a sudden demand for them will raise their price to our disadvantage and more particularly the idea that *our resources should be wasted for substituting one kind of currency reserve by another is not sound at all.*

TIME THAT INDIA ADOPTS A MANAGED CURRENCY SYSTEM

Failing any other alternative, the only possible standard which India can have is a free standard, or to use a popular phrase, a managed currency. A currency system in which the quantity of currency in circulation is regulated not with reference to the quantity and character of reserves but with reference to the other objectives of economic system, *e.g.* full employment, will be India's need in post-war years. Such a system has the merit of

flexibility which no other system has. Though gold standard is not recommended here, there is no objection to building up a gold reserve slowly and whenever it is possible to do so without inconvenience, for so long as public has an irrational preference for gold, a gold reserve, however slender, may create conditions of confidence and may facilitate 'Management' of currency.

LIQUIDATION OF STERLING ASSETS SHOULD BE ON THE BASIS OF BILATERAL AGREEMENTS

Release of Sterling from its present position of acting as currency reserve will deprive the problem of liquidation of sterling assets, undoubtedly the most vital of our post-war problems, of most of its monetary character. It will yet have a monetary aspect in that whether sterling assets are properly utilised or not depends upon, from the monetary point of view, whether their conversion into goods has been brought about on terms favourable to us. A word, therefore, about the procedure for their liquidation might be legitimately added here. In a world of uncertainties, which the immediate post-war world is certainly going to be, it seems undesirable that liquidation of our sterling assets should be left to the mercies of vicissitudes of exchange market and *the best way will be to deal with the whole problem on the basis of bilateral agreements.* If only we show some patience and are prepared to wait, it seems that we will soon be placed in a position of monopolist with a large amount of purchasing power in our hands and outside countries eager that we should buy from them. This is also true of our normal international trade and for some time at least we will find it convenient to resort to bilateralism. There can be no objection to this procedure when the Government coincides with the planning authority but even otherwise there is no reason why Government should not act as agents for private individuals in securing for them favourable terms. All this would of course necessitate keeping our post-war international trade under rigid controls.

DEFLATION NO CURE TO EVILS OF INFLATION

(B) While the question of standard refers more or less to the permanent structure of the monetary mechanism, the question of policy regarding the quantity of money in circulation and price-level can be discussed only with

reference to a limited and a given period. This is because in an economic system in which price-level is the regulator of economic activity policies about price-level have to change with changes in economic objectives. In fact 'Management' of currency is needed precisely to facilitate such changes. The suggestions regarding the quantity of money and price-level made here are, therefore, tentative in character and are applicable only to the immediate post-war period. It is clear that the present price-level cannot be maintained because to do so would be to perpetuate war-time injustices. There are, however, ways and ways of bringing down the price-level. To do it in a way that will prejudice production is to produce evils that are hardly a compensation for war-time injustices. In other words, a *monetary deflation is no cure to evils of monetary inflation.* There is a world of difference between decline in the price-level which follows a reduction in the quantity of money in circulation production remaining constant and decline that follows increase in production quantity of money remaining the same. Latter is easily the better. It is true that fall in price-level accompanying increased production has also prejudicial effects if it disturbs the price cost relationship unfavourably. But there is *no immediate danger of this kind.* So far as India is concerned, proverbial stickiness of the cost structure has meant that costs did not increase in war-time proportionately to prices and fall in prices will have to go a long way before it threatens the productive mechanism. Further, what increase in costs there has been has taken place in such a way that to bring about a decline is quite easy, *e.g.*, wages, the stickiest part of the cost structure have risen in the form of dearness and war allowances curtailment of which being expected should be a matter not of much difficulty. It is, therefore, suggested that we should proceed to tackle the problems of price-level on the basis of existing level of quantity of currency in circulation rather than to take steps to reduce it. This of course means that the existing price controls will not only have to be maintained but they will have to be strengthened if there is to be an orderly fall in price-level and if inflationary germs are to be checked.

NON-COMMITTAL POLICY IN REGARD TO INTERNATIONAL MONETARY FUND

Last, but not of least importance, is the question of our attitude towards the International Monetary Fund.

Should the Indian legislatures ratify the Bretton Woods Agreements? To answer this question is very difficult because, as the London ECONOMIST has pointed out, "this is one of those peculiarly awkward matters in which the arguments for or against cannot very well be weighed against each other since they are not commensurable." Difficult though the question is a cue for the answer, at least so far as India is concerned, is to be found in the same paper's observation that "here are proposals which will confer benefits on the world if certain optimistic assumptions are fulfilled but which might be a dangerous tying of hands if the hopes are not realized." Should India get her hands tied to a thing the future of which is precariously uncertain? That is the real issue. Before the question can be answered, it is as well to make a distinction between the contents of the Agreements and the assumptions on which they are based. There is little doubt that the assumptions of the Agreements are far too ambitious. The whole structure is based on the assumption that the post-war world will be a place in which the nations will be able to balance their incomings and outgoings within a small margin, without exchange controls on current transactions, without discriminatory currency practices and without more than a very limited power to change the gold values of their currencies. Needless to say that the assumption is a very large one and it is easy to see that in the abnormal conditions of the period of the transition from war to peace a period the length of which might differ from country to country, the expectation of an even-balance position will not be realised and the Fund, if established, will find itself in unsuitable conditions. One cannot but appreciate the significance of the remark made by John Williams at a recent meeting of the American 'Academy of Political Science' that the main effect of the Bretton Woods has been 'to shift the emphasis from the concrete problem on which the success of the Bretton Woods Agreements must depend, to more comfortable and abstract solutions which will give us the comfortable feeling of cooperation without the actuality.' *Participation in an International Monetary arrangement the life of which is likely to be precariously shaky can help India in no way.*

Even from the technical point of view the Agreements are not inspiring to India. The Agreements exclude from their scope the liquidation of our Sterling balances which

have been treated as 'international indebtedness arising out of war'. The problem of adequate representation to India on the Executive Committee of the Fund and the Bank was not also satisfactory and sympathetically handled at Bretton Woods. But quite apart from these minor details, there is a more fundamental objection to Bretton Woods Scheme—namely that it is not compatible with the post-war monetary policy for India outlined in preceding pages. One of the purposes of Fund is 'to assist in the establishment of multilateral system of payments in respect of current transactions between members and the elimination of foreign exchange restrictions which hamper the growth of world trade.' It is doubtful whether India can keep to the spirit of the Fund as understood by this clause and yet carry on with her expansionist economic programme. Planning, if India resorts to it, with so many restrictions as the Fund proposes to impose on its members, will be an absurd thing. Some economists have pointed out that we must join the Fund in order to get the advantages of the International Bank membership of which is contingent upon the Membership of the Fund. No doubt India will require the assistance of Foreign Capital for her economic development but whether the assistance which she will get under the provisions of the Bank will be adequate and timely are points on which no satisfactory light has as yet been thrown. Besides, advantages of the Bank are not sufficient inducements for the acceptance of the restrictions of the Fund. Another argument often made is that India cannot simply keep herself out of the Fund when other powerful countries who exercise a dominant influence on the world's economy today are its members. To see the truth of this argument, more light will have to be thrown on the Article eleven of the Bretton Woods Agreements which requires member nations not to engage in any transactions with non-member nations which would be contrary to the provisions of the Fund, "will it be contrary to the spirit of the Fund for England, assuming she is a member of the Fund, to give developmental loan to India assuming that she chooses not to join the Fund ? Will it be contrary to the spirit of the Fund for America to sell to India such capital equipment which India needs and for which she is in a position to pay ? Or does the clause mean that member countries will look upon non-member countries which follow restrictive and discriminatory practices as 'untouchables' ? Such an attitude is

understandable if these practices are followed by non-member countries, out of mischief or for no valid reason but how can India, though a non-member, be barred from the relations with members if she follows these practices for her economic development, if the words 'development of resources' find a place in the purposes of the Fund? Under these conditions if member-countries refuse to do all that they can to assist the economic development of India simply because she is a non-member, it will be out of sheer malice for which there can be no justification. If they want to be consistent to the spirit of the Fund and the Bank they cannot simply do so. For these reasons, *it will be better for India to keep out the Fund and do all that she can to promote the purpose of the Fund rather than join it and do something contrary to its spirit.* It may be that the future will reveal to her that membership of the Fund brings more advantages than it imposes restrictions and in that case she may join it. Her immediate attitude should be that of *wait and see* and decision for the present should be postponed. Political arguments also are in favour of such a postponement because the present irresponsible Government has no right to commit in such important matters the future Government of India. It is significant to note that the first reaction of the Economist was similar and it said about the Agreements that 'whether they should be unconditionally accepted for immediate application, is a matter which must necessarily await further evidence of the trends that are to be expected.' For a long time, that will have to be India's attitude.

CONCLUSION

To conclude, the major contention of this essay is that it is high time that *India discards the old monetary ideal,* namely, stability in terms of this and that *and accepts the new monetary ideal* that monetary authority should win public confidence, not through the contents but through the results of monetary policy. In so far as future is uncertain and can only be vaguely visualised all that India can do at present is to create an elastic monetary mechanism and if she is really serious about her development such a system will answer more to her needs than any other rigid system.

"FOOD PLANNING IN INDIA"

BY

V. SUNDARA RAJAN

[The food problem in India, which existed even before the war period refers to the unsatisfactory aspects of the production and consumption of food-stuffs in this country. It is not only the amount of food supply that is unsatisfactory but also its composition according to the new knowledge of nutrition.

Planned food production would mean a great increase in the production of various food-stuffs particularly of the "Protective foods." The measures such as extension of the area or the increase of yield are set out in latter part of the article.]

The cries of food that we hear around us is not a problem that arose out of the circumstances of the war-period. Even during the years of peace that preceded it food was a problem. After the Bengal disaster, it is no longer necessary to emphasise that India's food position is perilously inadequate, for although, to quote the Gregory Committee's finding "taking an average of years, she may broadly be described as only slightly less than self-sufficient in food grains as a whole, nevertheless the self-sufficiency implied by this statement at the very best is self-sufficiency at a very low level of per capita consumption. We have it on the authority of the highest nutritional expert in this country Dr. Aykroyd that there is at all times serious under-nourishment of some third of the population."

It is customary for writers on this problem to produce figures of the total area under food and non-food crops and total production under those heads. While they may be useful in striking a balance between the needs and the available supply and thus enable us to form a rough estimate of the surplus or deficit, they hardly tell us the whole story.

India is a vast agricultural country. In spite of a quarter century of industrial progress, agriculture forms the mainstay of life; the dependence of the population on agriculture has increased from 61·1 per cent in 1891 to 73 per cent in 1931. But the greater importance of agriculture

is realised when the figures of population and the rate of increase are taken into consideration. The population increased from 204 millions in 1872 to 389 millions in 1941 (59 millions of this increase is due to the inclusion of new areas or improvement in methods of enumeration). The rate of real increase has varied between 1·2 and 15 per cent. The decay of the old handicrafts and the consequent loss of the occupational equilibrium led to the heavy incidence the demographic pressure on the agrarian economy.

Agriculture in India is of a subsistence type rather than a commercial proposition. This means that cereal production is still the rule while the production of high value cash crops is of a very limited importance. The returns from agriculture consequently are poor and the standard of the living of rural masses is miserably poor almost approximating to the Malthusian standard of wretchedness.

The ryots could hardly be expected to think of the adjustment of agriculture to the altered context of the new international exchange economy. Nay, under the impulse of the money motive, the introduction of cash crops has made encroachment on the food crop area. The official figures as they stand show that the acreage under food-crops, unlike that under cash crops, has not kept pace with the growth of population; on the contrary there is an actual fall per head. During the period 1908-09 to 1917-18, 0·89 acres per head of population were devoted to food crops while during the period 1928-29 to 1932-33 the acreage has shrunk to 0·79 per head. The Government on the other hand was supremely indifferent to the problem of agricultural transition, a policy (or the lack of one) which brought them face to face with a terrible food crisis during the period of the war.

In the absence of reliable statistics of agricultural production in this country, it is difficult to say how far the total production of food has kept pace with the population. But the available figures for what they are worth, reveal a truly serious situation. Taking British India as a whole the index numbers of variation of population and production of food grains are :—

		1929-30	1939-40
Population	...	100	115
Production of foodgrains	...	100	96

Whatever may be the objections to this calculation, the reality of the shortage itself cannot be denied, and is expressed as under-nourishment of a large section of the country's population. The report of Sir John Megaw on an inquiry into public health aspects of village life said that in nearly 40 per cent of the villages surveyed, the population was excessive in relation to the food supply.

But what would cause greater alarm is the view now commonly expressed that the Indian dietary is deficient in quality more than in quantity. There has been not merely a deficit in the quantity of food production but a steady deterioration in the quality of her foodgrains. During the last thirty years, there has been a continuous increase in the production of less nutritive cereals such as barley, jowar, bajra and maize as compared to the production of wheat and rice. Rice and wheat increased by 3.5 and 4.2 per cent respectively while jowar increased by 110 per cent, barley by 57, bajra by 25 and maize by 5%. The intake of "protective foods as distinct from energy-building foods which contain mineral salts and vitamins is so low that deficiency diseases are widely prevalent. The daily consumption of dairy products is only 9.2 oz. as against the requirement 15 oz. according to Dr. Wright and the intake of over 30 oz. in most European countries. The area under fruits and vegetables was in 1934-35 shown as 4.82 million acres. Sir John Russell goes to the extent of recommending the liberation of land under staple crops for the cultivation of these supplementary foods.

According to the Nutrition Advisory Committee the balanced diet for an adult per day (in ounces) is as follows:—

Cereals	...	14
Pulses	...	3
Vegetables	...	10
Fruits	...	3
Milk	...	10
Sugar and gur	...	2
Vegetable oil or ghee	...	2
Fish and meat	...	3
Egg	...	1

Dr. Aykroyd opines that a very large increase in the

production of various foods is necessary to raise the existing standard to a satisfactory level.

It is an indefensible position that India with its vast agricultural resources referred to by H. E. the Viceroy as one of India's blessings cannot produce enough food to meet the physiological requirements of the people. The increase in the food supply of India is the crux of the problem. And unless we are able to feed the hungry millions of India, it is but idle to talk of a standard of living with reference to our country. If the rural masses in India do not rise in revolt against their rulers who have failed to merit their continued obedience, it is because of the oriental respect for authority and the eastern outlook towards life.

"Freedom from want" in relation to food and agriculture should be the immediate goal of State policy. A balanced diet for the present population and its future increase would require the increase of production of all foodstuffs, in some cases as in milk and fish and eggs by several hundred per cent. How can these be secured ? We have probably not reached the limits of agricultural expansion in this country. Of the cultivable waste amounting to 98 million acres detailed enquiries show, we are told, that only 9.5 million acres are definitely known to be cultivable and that too after considerable capital expenditure. Dr. Maclagan Corrie, however, says that with large-scale planning some 170 million acres of barrani land (land dependent on rains alone and not irrigation) could be brought into full cultivation. He averred that the days of miracles are not over and that "India can make every one of its villages fit for heroes to live in if it follows the Tennessee Valley Authority's example."

The lands not fit for cereal production may be turned to fodder crops or grains for cattle consumption which would solve not only the problem of food for cattle but would also prevent the soil from eroding. The fodder crop area constitutes a total of only 10 million acres. With the target for milk production at 300 per cent, very much more fodder will have to be grown.

A substantial increase in the area under irrigation is desirable, the authors of the Bombay plan estimated the increase at 200 per cent. The possibilities are great and the Government should take into consideration not the return

that would be derived but the indirect benefits that would result to the rural population.

The maximum utilisation of the land resources calls for the setting up of a National Land Use Planning Commission as in the United States of America. The planning authority would then be in a position to determine between the alternative uses of land for different kinds of cultivation (wheat or cotton or graze land) or to tackle such problems as soil conservation, deterioration and loss of soil, soil erosion etc.

How far "industrialisation of agriculture" to step up production can be brought about is problematical. That would lead to greater unemployment than now exists; even without it, the increase in the number of landless labourers is viewed with alarm.

A "marriage of agriculture to nutrition" would require the development of mixed farming—greater emphasis placed on dairying, vegetable and fruit-growing and cattle-raising.

This ambitious programme of an all-out drive for food production requires the provision of instruction to the masses as to the nutritive value of different kinds of food and the relation between food and health. The task is by no means an easy one for the masses cannot be reached by the written word and the value of broadcasting and the use of the radio is inestimable.

Of all the vexatious problems confronting agricultural planners in this country, none so serious as the special problems like the land system or the subdivision and fragmentation of land, the growing indebtedness of the agricultural classes and the alienation of land from the cultivating to the non-cultivating classes. But adequate and resolute steps should be taken to deal with each—the restoration of an enlightened peasantry on the soil, the abolition of the old laws of inheritance that have rendered holdings uneconomic and encouragement of consolidation the scaling down of rural debts and special laws prohibiting transfers of land—and unless these measures are undertaken" agricultural planning may end up as an expensive but ineffective attempt to foist improved technique on an occupation, from which the economic incentive is absent."

Finally when as in India the productive unit in agriculture is very small, control over small productive units is

very difficult and wholly dependent on active and whole-hearted cooperation on the part of the farmers. As the Agricultural Commission said, "Of all the factors making for prosperous agriculture, by far the most important is the outlook of the peasant himself." The education of the peasant is a sovereign necessity and should claim the highest priority, if planned food production is to be successful.

*FUTURE OF FOOD CONTROL IN INDIA

BY

D. L. GUPTA

Maharaja's College, Jaipur

[Nowhere the results of food control have been more spectacular than in England. The Ministry of Agriculture, which has been vested with wide and strong powers, has been successful in increasing the area under cultivation and the output of foodgrains. The County Agricultural Committees, helped by the District Agricultural Committees, have carried out the plan of increased food production. The subsidies, in varions forms, have been frequently used for encouraging production according to the plans of the Ministry of Agriculture. The total area under cultivation increased between 1939 and 1944 by 78 per cent and in some cases the increase is as much as 592 per cent. The output of foodgrains has increased from 4.6 million tons in 1939 to 8.3 million tons in 1944. The Ministry of Food has got a complete control on supplies whether imported or home produced. Price control, rationing, and schemes of communal feeding have assured a balanced and adequate diet to all. Large amounts of subsidies have been granted to stabilize the cost of living. The retail prices of foods increased by 45 per cent in the U. S. A. and 33 per cent in Canada, but only by 24 per cent in England. The average caloric value of food consumed in England is 3,000 as against 1800 in Russia and 1065 in Italy.

The Food Advisory Council and the second report of the Famine Commission have recommended the continuance of food control. But if they have to be successful they must be re-orientated. The machinery of food control and agricultural production should be combined and its administration decentralized, according to the recommendations of the second report of the Famine Commission. All the requisites for increased agricultural production should be provided and subsidies may be utilized to some extent to improve the methods of cultivation. Something should be done to improve the size of the unit of production and the Government can indirectly influence it. The Famine Commission has recommended that the price level should be stabilized at 240% of the 1938-39 level. The success of this measure will depend upon a number of factors. The rationing of foodstuffs will have to be continued in the urban areas, and, according to the Famine Commission, may have to be extended to the rural areas. The difficulties in the way of rationing in the rural areas have been discussed. The two requisites for a successful food policy are courage and confidence and only a national Government can command them.]

FUTURE OF FOOD CONTROL IN INDIA

No policy and plan of post-war reconstruction in India is worth its name unless it can guarantee to the masses freedom from starvation, if not freedom from want. The acute food shortage in India during the war has focussed the attention of all thinking men on future of the food controls in India. It will be necessary in the immediate future to increase the production of foodstuffs in India and adopt measures for their equitable distribution. This will require a very comprehensive and planned food policy and food controls in one form or other may have to be continued. Many countries have adopted food control during the war, but nowhere they have been more successful than in England. A brief description of these controls in England may be useful in suggesting similar measures for India.

Before the War two-thirds of the food supply of England was imported and only one-third was home produced. The outbreak of war and the consequent shortage of shipping heavily curtailed the imports and England had to depend more and more on home production. The supply of foodstuffs in England during the war has been increased by a rigorous control of production, distribution and consumption. The Ministry of Agriculture is responsible for increasing production and the Ministry of Food of their equitable distribution. The Ministry of Agriculture has concentrated on the production of those foodstuffs which can be easily produced within the country. The habits of the consumers have been changed so as to increase the consumption of food produced inside the country.

The Minister of Agriculture has been vested with very wide and strong powers in directing the cultivation and management of land. He, with a view to decentralize the administration of controls, has delegated many of his powers to the County Agricultural Committees which are helped by the District Agriculture Committees. The Minister of Agriculture is empowered to "prevent agricultural land from being used for purposes other than agriculture ; he can regulate the cultivation, management and use of agricultural land and if his orders are not followed according to the rules of good husbandry, he can, if the land is held by

a tenant, proceed to terminate the tenancy and if necessary he may take possession of any land."[1]

The production of foodstuffs has been positively encouraged by a comprehensive and well-planned system of subsidies. They have been used as a lever to increase the production of foods deemed to be necessary by the Ministry of Agriculture. A subsidy of £ 2 per acre has been granted for ploughing up seven year grassland. The fertilizers are supplied at a reduced cost and the cost of drainage is partly met out of the public funds. In some cases machinery has been supplied at a reduced price while in others they have been purchased by the County Agricultural Committees to be given to the cultivators. Direct subsidies have also been granted to some producers. Besides these subsidies, facilities have been provided in the matter of land tenures and credit.

All these measures have increased the production of foodstuffs in England tremendously. There has been an increase both in area under cultivation and output. Between 1939 and 1944 the total area under foodgrains has increased by 78% and the total output of foodgrains from 4.6 million tons to 8.3 million tons. The area under different foodgrains has increased to a varying extent while the area under wheat has increased by 82%, that under rye has increased by 594%. The ECONOMIST has rightly observed, "The enormous expansion of output has, therefore, been obtained by more intense farming and by ploughing up grassland unprecedented in this country and possibly elsewhere."[2]

The Minister of Food is responsible for the control over supplies, distribution and consumption. He is the sole importer for many important foodstuffs. The control over the foodstuffs produced within the country is secured by licensing the dealers and prohibiting sales to the dealers who are not licensed. The pre-war machinery of marketing has also been utilized for securing a control of the supplies of foodstuffs available in England.

Various measures have been adopted to secure an equitable distribution of the available food supply. There is a very comprehensive system of price control at all the stages of production and distribution. The prices are

[1]*Food Control in Great Britain,* page 15.

[2]THE ECONOMIST, October 14 and 21, 1944.

fixed in such a way that they are sufficient to cover the cost of production on all the farms and are also within the reach of all the consumers. The retail prices are not allowed first hand to affect the production of foodstuffs. The device of subsidies has been frequently utilised to keep prices low and stabilised and to allow sufficient to the farmers. Between 1940 and the present time the cost of subsidies has increased from £70 millions to £225 millions. Without the help of the subsidies the cost of living would have been 15% higher than what it is at the present time. It is likely that the burden of subsidies may not be reduced substantially in the immediate future. "The cost of the subsidies cannot be ignored, but an addition of £250 millions to the deficit is likely in this period to be much less harmful than the addition of the same figure to the cost of living."[3]

Price control has been supplemented with comprehensive rationing, schemes of communal feeding and allocation of protective and scare foods. All foods except bread and potatoes are rationed under the various systems of rationing. School canteens, factory canteens and British restaurants have been organised to supplement the rationed supply of food. The protective foods like milk are distributed according to a system of allocation and priority. The consumption of milk by the 'vulnerable' classes has been subsidised and in some cases supplied free of cost.

The above-mentioned measures have been successful in stabilizing the cost of living and the retail price of food. The Ministry of Labour's cost of living index number (1929 = 100) increased from 96.4 in 1939 to 124.3 in June 1945. The index number of food prices increased from 92.4 to 110.4 during the same period. The rise in the cost of food has been less than in the cost of living as a whole. A more significant fact, however, is that there has been a greater increase in the retail prices of food in the U. S. A. and Canada. Between January-June 1939 and January 1945 the index number of food prices increased by 33% in Canada and 45% in the U. S. A., but only by 24% in England. From the year 1943 the index number has been almost stable at 124.

[3] THE ECONOMIST, April 21, 1945.

There has been no deterioration even in the quantity and quality of food available. The average caloric value of food consumed in England has been estimated at 3,000 as against 1930 in Germany, 1800 in Russia and 1065 in Italy. There has been no change in the proportion of calories from the vegetable and animal origin ; while the percentage of the animal calories obtained from milk has increased from 23 to 39 per cent. "The national diet had become less varied, but had been but little reduced in terms of calories per head and from a nutritional standpoint has been improved".[4]

There is a unanimity of opinion throughout the country regarding the need of food controls during the post-war period. The Food Advisory Council in their last meeting have recommended that food controls will have to be continued upto the end of 1946. The second report of the Famine Commission recommend that food control should continue during the period of transition (which according to them may last upto 1951-2) or even later. In view of the shortage of food supply and the difficulties of speeding of production or imports immediately, few will dispute the necessity of food controls. But one finds it difficult to agree with the tribute paid by the Food Member to the Provincial and Central Governments for their "ceaseless endeavour during the last two years. "The food control has been unsuccessful in achieving any of the objects of a successful food policy. The Famine Commission has concluded that the 'grow more food' campaign has not been fully successful because the requisites for a large increase in agricultural production have been absent. Nothing is more significant than the fact that the food situation during the war has been much better in a predominantly industrial country like England than a predominantly agricultural country like India. If the food controls are to continue, they have got to be reorientated.

With a view to have a co-ordinated policy it is necessary, as recommended by the Famine Commission, that the Food and the Agriculture Department should be combined. The aim of any policy of the food control should be more to increase the production than to distribute, in an unplanned and unscientific way, the available short supply. There should

[4]League of Nations : *Food Rationing and Supply*, pages 24 and 29.

be a control on the production, supply, price, distribution and consumption of food. On the one hand it is necessary to fix up the targets of agricultural production for each village and on the other to have an adequate control over the total supply of food. There should be a decentralized machinery for executing the plan and the provisions of adequate facilities in its execution is equally essential.

The machinery for food control and agricultural production should be decentralized and the cultivator should be associated with it. The decentralization of the administration of food controls in England has been very successful. The Famine Commission has also made a similar recommendation. "The future development of agriculture in the case of small and medium farm depends in considerable measure on the organisation of these classes into multipurpose village co-operative societies with unlimited liability and the federation of such societies into multipurpose co-operative unions with limited liability." It will be comparatively easy to execute plans of increased agricultural production with the help of such societies composed of the agriculturists. They will be of very great use in introducing improved methods of cultivation. They can also be utilized for having a control over the produce of the cultivators. The societies should be vested with limited powers to regulate the cultivation and management of land.

The most important factor, however, in food control in India is an improvement in the methods and unit of production. The expansion of agricultural production will not be possible unless definite facilities are provided for it and the obstacles in the way of the cultivator are removed. The remedies are too many to be enumerated here. But a reference may be made to the device of subsidies which has been very frequently and successfully utilized in the United Kingdom. By providing subsidies in various forms the Government can influence both the nature and methods of production. The use of improved fertilizers can be encouraged if they can be provided at reduced costs. The use of improved appliances can also be encouraged in the same method. It may be utilized also for increasing the production of superior grains and curtailing that of inferior grains.

It has been estimated by Dr. Radha Kamal Mukerjee that about 60% of the holdings in India are uneconomic.

It is not possible for the Government to directly influence the unit of production in agriculture. But the method of subsidy may be utilized here also. The Government may promise to reduce the land revenue if the holdings are consolidated co-operatively or otherwise, they may undertake to supply improved appliances to consolidated holdings at a reduced price. The Ministry of Agriculture in England investigated all the farms and classified them into A, B and C classes. Their object was to improve the B class and eliminate the C class farms. Similar farm surveys may be carried on by the Provincial Governments. The Government will have to positively influence the unit and method of agricultural production if the food problem is to be tackled successfully. The Famine Commission is of opinion. "Powers should be taken by the Government to supervise and control the management of such (permanently settled) estates with a view to ensure that the system functions properly as long as it continues."

The stabilization and guaranteeing of agricultural prices during the period of transition at least is generally agreed upon. The final report of the Famine Commission has recommended that the prices should be stabilised at a level of 24% of the prices prevailing in 1938-39. This may appear to be reasonable in view of the fact that during the period of 1938-39 prices were very low. The prices of different agricultural crops should be so fixed relatively as to keep with the policy of increased food production in the country. But the success of this measure will depend upon the world level of prices, the cost of living in India, the cost of production on an average farm and above all the methods adopted for maintaining the prices. If the prices are to be stabilized at a reasonable level some subsidy may have to be given to the sub-marginal farms which are bound to continue for some time to come.

To some extent control over supply, distribution and consumption will have to be continued. The Bengal Famine Commission has recommended the method of monopoly procurement in the period of transition. But this method will not be practicable in the permanently settled areas and unnecessary in the surplus areas. The multi-purpose cooperative societies can be used for controlling the supply and eliminating a large number of middlemen.

The Famine Commission is further of opinion that rationing will have to be continued and perhaps extended to the rural areas. But it must be remembered that rationing will not be very easy in rural areas in India. "Self-suppliers specially farmers are brought into any price control or rationing scheme with the greatest difficulty".[5] Rationing, however, has got to be continued in the urban areas. But the method of rationing and the quantity of rations require to be improved. The quantity of the rations is inadequate and the quality leaves much to be desired. Some discrimination will have to be adopted between the rations of heavy and light workers. Rationing can be utilised for finding out the proportion of population, specially urban industrial workers, which is not able to purchase their full rations due to lack of purchasing power. This information may be utilised for subsiding consumption whenever it is thought to be practicable.

The supply of protective foods like milk cannot be speeded up in the near future and some measures should be adopted to assure the supply of these foods to the 'vulnerable' classes. The provincial Governments should explore the possibilities of introducing milk distribution scheme on the lines introduced in Bombay.

The Government should, in brief, accept the responsibility of providing food for all and be prepared to adopt more positive and drastic measures than those adopted upto this time. The two requisities of a successful food policy are courage on the part of the Government and confidence on the part of the masses. Unfortunately both have been lacking and a foreign Government cannot possess any one of them. It is only a truly national Government which can have the courage to pursue a far-reaching food policy and create confidence in all the measures adopted by it.

[5] I. L. O : *Studies in War Economics*, page 113.

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COST AND EFFICIENCY IN INDIAN BUSINESS—I

BY

KASTURCHAND LALWANI

College of Commerce and School of Co-operation, Poona

A consideration of cost and efficiency in Indian business has never assumed so much importance as it has done today in view of the fact that Indian business, in the interest of the nation as a whole, must not only be able to maintain itself, but maintain itself with success and compete effectively with other countries in the world market. The factors affecting efficiency of business are so many, of which the present discussion is concerned only with one, viz., Cost. Efficiency of any business is directly interlinked with cost. For, the object behind the attainment of efficiency is the reduction of cost all round, so far as practicable. In this respect, much depends on the supply of raw materials. For, their price constitutes the major item in costs, and it will be realised that in this respect India is much more blessed than many countries of the world. There are various other factors which are no less important in this connection, e.g., scale of business, whether in production or in distribution, extent of capital equipment and their uptodateness, utilisation of by-products, market limitations, etc. At times it has been seen that a concern is producing without due reference to these factors with results prejudicial to the efficiency of the concern. In the Final Report on Industry and Trade the Balfour Committee has given a word of warning to the effect that efficiency must be regarded as strictly correlative to Cost. The Report says that it must not be supposed "that because capital equipment is of great importance to industry, it is necessary and desirable to equip all....industrial undertakings, regardless of costs or market limitations, with the most uptodate plant; or that because large-scale production makes for certain forms of efficiency, all small-scale undertakings should be

incited or compelled to combine. The history of recent years furnishes many examples of industrial concerns which were misled by the abnormal experience of war conditions into embarking on elaborate schemes of new equipment or amalgamation without due reference to commercial costs and market limitations." The warning was timely and is even true today when many of the economic conditions are likely to repeat themselves. There is much scope for mistake in this direction, particularly when an intense competition will ensue in coming years for capturing world markets, while at the same time the need for reducing commercial costs so far as practicable and attaining efficiency was at no time greater than it is today, particularly in backward countries, where the scope for mistake is not only great, but, if committed, would involve disaster.

The consideration of cost in a study of efficiency is of very great importance. For, while prices of a particular commodity, under a regime of free competition, tend to equality, the same can not be said with regard to cost. "On the contrary costs even within the same industry tend to an infinite variety, corresponding to differences among the competing undertakings in respect of every kind of industrial advantage—geographical situation, layout of premises, efficiency of equipment, organisation and personnel. Moreover, these differences, so far from being removed by competition, may even tend to become accentuated, inasmuch as the less efficient or well equipped undertakings, which naturally lose trade to their better equipped competitors, are forced to spread their overhead charges over a reduced output, thus further enhancing their costs and weakening their competitive position." Thus it is clear that while over a long period of time, there must be some definite correlation between costs and price, as the economists have assumed, yet in a short period, or in case of individual undertaking, with which we are concerned in actual life, the assumption of any such correspondence means a total ignorance of reality. Thus when the economist says that costs of production determine price or price must cover costs, he has the long period in view, and he is considering the case of an industry as a whole. But in the short period and for an individual undertaking, the cost factor may vary indefinitely and hence its study is so very important from the standpoint of efficiency. Whatever the general level of prices may be, the individual producer is more concerned with what he spends in producing a commodity on different items of cost and what he gets back by way of price. If his costs are more than those of his rivals, he is surely making less profit, and it will be his aim to try to reduce these costs so that he can also attain the same degree of competitive efficiency as his rivals.

Relative Proportion of Different Cost Items—The first thing that attracts our attention is the relative importance of raw materials, wages and salaries and other items of cost. Here the importance of different items of cost are not the same but vary widely. Take the case of cotton textile industry. Here the cost of raw material represents a large proportion of cost of finished product. According to the Tariff Board (1932) on Cotton Textile Industry, an analysis of the average costs in cotton textile mills in India of manufacturing cloths of medium counts shows that on the average the cost of raw cotton may be taken as 76 pies per lb. of cloth or 40 p.c. of the total works costs, while the average manufacturing cost amounts to 115.5 pies per lb. of cloth or 60 p.c. of the total works costs. The manufacturing costs are distributed among the individual items of expenditure as shown in the following table. The table does not include profit, interest, depreciation and managing agents' commission which have been excluded from the calculation.

Source : Report of the Tariff Board on Cotton Textile Industry, 1932.

	Bombay	Ahmedabad	Cawnpore	Delhi	Calcutta	Nagpur	Baroda
No. of mills considered.	11	4	2	2	3	1	2
Items	%	%	%	%	%	%	%
Labour ..	49.40	53.80	40.75	51.60	42.40	38.60	52.65
Fuel, Power ..	10.80	8.70	15.45	7.46	8.20	9.28	6.21 (Fuel, Power & Water)
Water ..	0.60	0.53	0.14	0.04	–	0.46	
Stores ..	13.40	18.50	17.30	24.34	18.50	13.61 (Stores & Repairs)	17.70
Repairs & Maintenance ..	2.50	2.64	4.14	5.78	0.70		1.00
Supervision ..	7.50	8.10	11.60	Included under Labour	7.70	14.99	8.85
Insurance ..	0.90	0.90	1.56	0.67	1.60	2.38	1.33
Rents, Rates & Taxes ..	1.90	0.23	0.96	0.44	1.50	0.41	0.85
Packing ..	2.50	1.60	2.55	–	2.20	3.24	1.66
Selling Expenses	7.00	1.10	–	8.35	11.10	14.75	7.97
Other Expenses ..	3.50	3.90	5.55	1.32	6.10	2.28	1.77
Total ..	100.00	100.00	100.00	100.00	100.00	100.00	100.00

It is thus clear that while of the manufacturing costs, labour represents the maximum percentage, of the costs of production as a whole, the cost of raw material is the biggest single item.

Or take the case of the Iron & Steel Industry. The figures given are a bit backdated. But yet they give an idea of the relative importance of cost items. Besides, the comparative study of gross expenditure and incidence per Ton during 1925-26 and 1933-34 shows that the industry is increasing in efficiency.

Source : Tariff Board on Steel Industry (1927)

1925-26—*actual figures;*

1933-34 *Estimate by the Board.*

Production of Finished Steel :—

1925-26—319960 *tons*

1933-34—600000 *tons.*

	Gross Expenditure		Incidence per ton	
	1925-26	1933-34	1925-26	1933-34
	Rs. lakhs	Rs. lakhs	Rs.	Rs.
Labour	148.4	148.4	46.4	24.7
Stores & Supplies ..	81.2	124.0	25.3	20.7
Fuel	113.0	150.7	35.3	25.1
Ores, Fluxes, etc. ..	52.4	92.0	16.4	15.3
Total ..	395.0	515.1	123.4	85.8
Credits	37.5	42	11.7	7.0
Nett Total Expenditure ..	357.5	473.1	111.7	78.8

An idea of the average incidence of overhead charges and the manufacturer's profit per ton of finished steel may be had from the following table:

	Rs.
OVERHEAD EXPENSES: —	
Depreciation	21.72
Interest on Working Capital	6.09
Agents' Commission, Head Office Expenses, etc.	2.89
TOTAL OVERHEAD ..	30.70
Manufacturer's Profit	26.37
GRAND TOTAL ..	57.07

In the sugar industry, the cost of manufacture is divided generally into three parts—raw materials, manufacturing expenses and overhead charges. An idea of cost of raw materials and manufacturing expenses in different industrial centres can be had from the following table. They relate to the year 1936-37.

Group	*Number of Factories reporting*	*Average cost of raw materials per md. of sugar*			*Average of manufacturing expenses per md. of sugar*		
		Rs.	a.	p.	Rs.	a.	p.
Punjab	3	4	0	8	1	14	2
Western U. P.	13	3	5	4	1	0	7
Central U. P.	6	3	10	1	1	3	8
Eastern U. P.	12	2	13	2	1	2	6
North Bihar	16	3	12	11	1	4	2
South Bihar	1	3	8	8	1	7	6
Bengal	2	3	9	9	2	0	9
Madras	10	4	7	1	2	3	8
Bombay	6	4	7	6	1	10	7
Mysore	1	4	2	6	1	3	10
Central India	1	3	14	3	1	2	6
Sind	1	4	4	10	3	11	9

Roughly, 78 p. c. of the total cost is represented by raw material and manufacturing charges, the rest being covered by the overhead charges. In the economic unit of production in the sugar industry, considered by the Tariff Board of 1938, the percentage of these two major items of expenditure comes to 52.58 for raw materials and 25.49 for manufacturing expenses. Among the manufacturing expenses as shown above, about annas 12 per md. is spent on salaries and wages, which being a very important item in this category and efficiency in production depends to a very large extent on the efficiency of the technical staff employed.

The relative proportion of different items of cost in paper manufacture, as investigated by the Tariff Board (1925), was as follows.

(In Rupees per Ton)

Cost Items	*Titaghur Paper Mills Co.*	*Bengal Paper Mill Co.*	*Indian Paper Pulp Co.*
Primary Materials	118.94	102.23	100.24
Purchased Pulp	105.86	99.88	40.37
Auxiliary Materials	93.47	112.10	119.18
Labour	76.81	70.57	66.08
Power and Fuel	76.21	68.95	56.64
Repairs & Maintenance	52.56	42.44	41.36
General and Miscellaneous	16.63	22.92	33.25
TOTAL ..	540.48	519.09	457.12

In the above cost items, primary materials include "the various products e.g., grass, bamboo, rags, etc., from which the fibre is obtained." Auxiliary materials include "lime, all chemicals and dyes, consumable stores and generally all raw materials other than primary raw materials and purchased pulp."

In the paper industry, however, it is very difficult to allocate different items of cost in correct proportion, mainly because of the fact that the process of manufacture of pulp and paper being continuous, many cost items are common to both. The difficulty was faced by the Tariff Board on paper industry (1938) when they pointed out that the allocation of proportions of common items, like, power and fuel and overhead charges must necessarily be arbitrary and hence not precisely the same in all cases. Another difficulty faced by the Board was that the four mills reporting did not employ the same process of manufacture and hence used different proportions of raw materials. We have therefore to study the cost items in paper industry under the above two reservations. We have given above the position in the year 1923-24. Since then the industry has made much progress towards increasing its efficiency. In 1924-25, the works cost of manufacture of one ton of air dry unbleached pulp based on the experience of one mill was Rs. 227.47. By the year 1930-31, this figure had been brought down to Rs. 196.65. The estimate of the Tariff Board in this matter for the year 1936-37 showed that the figure has come down still further. The average for the four mills came to about Rs. 123 in round figures, a reduction of Rs. 73 per ton on the 1930-31 figure. Apart from the reduction in the cost of raw material, various economies have been effected in the use of chemicals, power and fuel, labour and supervision, and repairs and maintenance. In 1936-37 the costs of production of paper of the protected classes as reported by the three principal companies to the Tariff Board were as follows:

(In Rupees)

	A Mill	B Mill	C & D Mills
Works Costs	294.29	256.44	288.65
Overhead Charges	77.51	72.52	70.13
Total	371.80	328.96	356.78

It will thus be seen that works costs are nearly four times the overhead charges. Thus an increase in efficiency in paper industry means that the industry is able to reduce its works costs. One important factor in works costs is the proportion of the imported pulp required. The greater this proportion, the higher the cost. If a reduction in the proportion of imported pulp can be effected, that will surely reduce cost. It is interesting to note that there is general agreement among mills that there is the pos-

sibility of a further reduction in the use of imported pulp. It was pointed out that one mill using bamboo and grass pulp as its main material had by 1936-37 reduced the proportion below 10 p.c. and made a further reduction in 1937-38. The average proportion of imported pulp used by bamboo mills in 1937-38 did not exceed 20 p.c. It was pointed out by the Tariff Board that "by the end of a further period of protection, this proportion should be reduced to 5 p.c." As the proportion of bamboo pulp used increases, it is essential that a second important factor in the reduction of works costs is the further improvement in the quality of bamboo. This will not only reduce cost but enable the industry to dispense with the use of imported pulp; for, with further improvement in the quality of bamboo pulp, it may reasonably be expected that the industry would be able to dispense with the use of imported pulp altogether even in those cases where admixture of imported pulp under existing conditions is a matter of necessity.

One of the major items of cost in production is dependent on the supply of raw materials, plant and equipment that are essential for the purpose. So far as the supply of raw materials is concerned, the Reports submitted by the various Tariff Boards on different industries provide the most valuable source of information and it will be seen presently that India is blessed in the matter of the supply of most of these materials. As regards plant and equipment, unfortunately India is hopelessly dependent on the Western countries and this is one of the most important factors standing in the way of progress of industrialism in this country. This non-availability of capital goods within the country is not peculiar to any particular industry; it is a common feature for all the existing ones. Much in this respect depends on the particular policy adopted by the Governmentand the encouragement given to research and technological inventions both by the Government and by persons and concerns interested in business. Some encouragement has no doubt been given in this line; but it is a matter of regret that Indian industrialism "has not any invention or any new process to its credit which represents an advance on the machinery and the methods it has copied from foreign countries." Cost and efficiency again depend on the proper utilisation of by-products, on the diversification of products in order to suit the varied requirements of the market, on the purchasing power of money, both internal and external, etc. Much again depends on the scale of production. This aspect of the question is closely related to another problem, viz., the extent to which a firm should expand. The consideration of this problem is an extensive one and suffice it to note for the present that when market is limited, or demand restricted, any expansion of output, how-

ever economical from the standpoint of the laws of returns, is most inefficient in view of the fact that limited demand, without limitation of supply, will lead to the accumulation of dead stock, thereby telling adversely on the efficiency of the concern. In some industries, adequate measures have been taken while in others they are equally essential. Individualistic spirit or theoretical considerations do not go, under all circumstances, side by side with efficiency.

Supply of industrial materials depends on the existing resources and to what extent they are being exploited. So far as the supply of agricultural resources are concerned, India evidently stands in an advantageous position. In the production of cotton, which was consumed by Indian mills to the extent of about 40 p. c. in normal times before the war, India stands second in the world and is practically self-sufficient, except for the supply of long staple cotton. So far as jute is concerned, India has the monopoly of the product. Before the second quarter of the 19th century, jute was hardly cultivated except for local use; but since then its cultivation has grown very rapidly and a considerable part of the product is consumed by the jute mills in Bengal, most of which are, however, under the foreign ownership and management. Oil seeds are another important agricultural product. They have been cultivated in India since olden times and their cultivation has widely extended during the last one hundred and fifty years. Unfortunately, however, this great agricultural product is not utilized in India, mainly because of the fact that industries using oil extracted from them, e.g., dyeing and leather industries, have not yet developed in this country, with the consequence that even the oil industry has not developed and the oil seeds are exported as they are and constitute one of the major items of export. Vegetable oil has been the principal source of illumination in India for a long time but this use has been restricted to a great extent owing to the coming of kerosene, which in its turn is being slowly but gradually superseded by electricity, at least in big towns. Only a small quantity of oil that is extracted in this country is used for candle and soap making.

Raw Materials—India is one of the most important cotton growing regions of the world. It is all the more important because while a considerable portion of the produce is consumed internally by cotton mill industry, a considerable portion of it is also exported. According to the trade description, the following types of cotton are grown in this country and their staples are indicated against each :—

Type of Cotton Cultivated	*Staple*
Oomras	5/8″ to 6/8″.
Dholleras	5/8″ to 7/8″.
Bengals	3/8″, 4/8″, 5/8″ & 7/8″.
American	11/16″ & 7/8″.
Broach	5/8″ to 1″.
Coompta-Dharwars	6/8″ to 1″.
Westerns & Northerns ..	Westerns in Bombay 5/8″ to 6/8″ & Madras 7/8″ Northerns in Madras 7/8″.
Coconadas	5/8″ to 7/8″.
Tinnevellies	7/8″.
Salems	(1) Uppams 6/8″, Karunganni 7/8″ to 1″ & (3) Nadams 5/8″ to 6/8″.
Cambodias	(1) Irrigated 7/8″ to 1″ & (2) Unirrigated 7/8″,
Comillas, Burmas & others ..	3/8″ to 4/8″—Comillas; 4/8″ to 6/8″ Burmas

In judging the quality of cotton, staple length is very important. Cotton is roughly divided into short and long staple. "By custom, the line is drawn at $1\frac{1}{8}$ inches; cotton of that length and longer being known as long staple, extra staple, staples, or simply staple cotton. The tendency in recent years has been to acknowledge an extra value in any cotton of one inch or more in length and to speak of that which is below one inch as short staple." (The Cotton Growing Countries, Present and Potential. International Institute of Agriculture, Rome.) From this standpoint India is a country producing short staple cotton. According to the information supplied in the Handbook of Commercial Information, the production of long staple (over one inch) cotton in India during the years 1933-34 and 1934-35 was 24,000 and 51,000 bales of 400 lbs. each respectively. Since then the production of long staple cotton in this country has increased; but yet it forms a small proportion of total production. In recent years, the estimated percentage of production to total yield and yield per acre of Indian Cotton by varieties are given in the following tables.

BOMBAY COTTON ANNUAL, 1943-44, No. 25

ESTIMATED PERCENTAGE OF PRODUCTION TO TOTAL YIELD

Description of Cotton	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44
Bengals	20.0	19.1	20.7	15.2	12.5	12.3
Americans	21.2	18.5	19.5	22.5	31.7	30.7
Oomras	21.5	26.3	25.2	25.5	20.0	20.4
Hyderabad Gaorani ..	2.5	3.0	2.3	2.3	3.1	3.1
Central India ..	5.1	3.6	5.7	4.7	4.9	5.4
Broach	4.8	5.0	3.7	4.7	3.9	4.4
Surti	3.5	3.2	2.4	2.5	2.4	2.6
Dholleras	6.5	3.9	5.5	6.9	5.7	5.5
Southerns	9.6	10.2	7.8	7.9	6.4	7.6
Tinnevellies, Cambodias, Salems & Comillas	5.4	7.2	7.2	7.8	9.4	8.0

YIELD PER ACRE OF INDIAN COTTON BY VARIETIES (*in lbs.*)

Description of Cotton	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44
Bengals ..	123	140	168	136	140	137
Americans ..	173	150	175	192	191	175
Oomras ..	64	83	92	93	72	74
Hyderabad Gaorani ..	56	71	61	68	65	59
Central India ..	60	44	79	66	65	77
Broach ..	114	116	100	130	102	183
Surti	108	97	88	79	84	104
Dholleras ..	59	50	64	76	79	83
Southerns ..	58	57	53	51	42	49
Tinnevellies ..	89	88	92	94	91	91
Cambodias	124	156	170	161	178	183
Salems ..	31	36	42	52	84	67
Comillas ..	138	141	133	117	122	119
GRAND TOTAL	86	92	101	103	98	100

In the above list, it will be seen that although the maximum average yield per acre is 101 lbs. that of long staple cotton like Americans, Broach and Cambodias is much higher and although they fall much below the average yield per acre in America, yet they have shown a distinct improvement and it may be expected that if proper investigations are made, the yield may increase still further.

It is well known that a greater part of cotton produced in this country is consumed by mills in this country. In the years following the first great war the industry was passing through a depression when the Tariff Board investigated into the conditions of the industry in 1927 and suggested remedies with the object of securing economies in production both by a reduction in cost and by improvement in organisation. Since we are concerned with the first one here, let us see what the recommendations of the first Tariff Board were in this respect and how far they have been secured and to what extent do they improve the competitive position of the industry.

In order to reduce cost and thereby improve the competitive position of the industry, the Tariff Board suggested, first, that there was room for improvement in the methods of purchasing raw material, secondly, that in respect of fuel, power and water it was desirable, if possible, to secure a reduction of charges. Thirdly, that there was scope for considerable economy in reducing the wages or improving the efficiency of labour and lastly that overhead charges might be reduced by a modification of the arrangements for insurance.

It is well known that the cost of producing an article and sending it to the market in which it is to be sold is not the only or even the deciding factor in determining the selling price. For it is actually seen that a firm at times is earning fabulous profits, while at others it is earning low or no profits and at still others it is passing through a loss. It all depends on the market fluctuation of prices which in technical language is known as the Business Cycle. But there is no doubt that the costs of production and distribution constitute the minimum below which a firm would not accept, except for a very short period, if it is to survive and it will try to raise its price as much above this level as is possible under conditions of demand. It cannot be expected to continue to sell at a loss for long and if price is not sufficient to cover the costs of production and distribution, it will be forced out of business. From this standpoint cost of production and distribution are important items to be considered in connection with efficiency. But in this matter our hands are specially tied up in view of the secrecy prevailing in this matter and of the unwillingness of the businessmen to give out the secrets to outsiders. There-

fore the analysis in this respect can hardly be expected to be scientific in character and accurate in details.

In the cotton industry, the cost of raw material is the biggest single item. In this respect two things are of importance, viz., first the market price of cotton and second, the method of purchase of cotton. Price again depends on two factors—quantity and quality both of cotton produced in India and of cotton imported from abroad. The quantitative aspect of cotton produced in India may be seen from the following table showing acreage under cotton cultivation and total annual yield. The next table shows the mill consumption of cotton by Indian Mills.

Source : Investors' India Year Book 1942-43. 000's *omitted. Figures for yield in bales of* 400 *lbs.)*

	1937-38		1938-39		1939-40		1940-41		1941-42	
	Area	*Yield*	*Area*	*Yield*	*Area*	*Yield*	*Area*	*Yield*	*Area*	*Yield*
Bombay (Including Sind and Baroda) ..	8135	1883	7588	1635	6904	1489	7555	1622	7486	1681
C. P. and Central Indian States ..	5370	840	4794	716	4307	840	4706	1132	4876	1164
Madras & Hyderabad	6135	1075	5440	879	5410	958	5899	1081	5824	1100
Punjab & U. P...	4581	1713	4324	1587	3789	1441	3792	1769	4046	1734
Rest of India ..	1525	268	1336	259	1170	181	1334	299	1315	301
TOTAL ..	25746	5779	23482	5076	21580	4909	23286	5903	23547	5980

MILL CONSUMPTION OF COTTON IN INDIA

(In 000's of Bales of 400 lbs.)

1932-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41	41-42
2361	2336	2611	2609	2612	2870*	3122*	3052*	3359*	3938*

* Excluding Burma.

Turning next to the qualitative aspect, it may be noted that the inferiority of Indian Cotton is often too much exaggerated. As Arno S. Pearse says in his Report on the cotton industry in India, "Indian cottons have still a bad reputation, due to the condition in which they reached Lancashire at the time of the Cotton

Famine.... The very fact that the yarn made for 2300 automatic looms which are working in South India is spun entirely from Indian cotton should be an object lesson of sufficient value to induce spinners to make a new trial with Indian cottons. One English spinner informed me that he was spinning experimentally 36's twist out of Indian cotton without any admixture of other cottons." Not only has the quantity of Indian cotton crop increased both absolutely and in yield per acre and is likely to expand still further in future, but there has been a distinct improvement in staple length as well. Over a period of ten years previous to the enquiry by the Tariff Board in 1932, long staple cotton with staple 7/8" and above has on the average formed 26.7 p.c. of the total crop. Be it noted that long staple cotton is needed for the spinning of yarn of finer counts. But the long staple cotton grown in India is defective in quality, for, some of it is uneven in staple or lacking in strength and sometimes it is rendered unsuitable by admixture with short staple cotton before it is brought to the market and according to an estimate made by the Indian Central Cotton Committee in 1931-32, quoted by the Tariff Board, about 56 p. c. of the long staple cotton grown in India is capable of spinning finer qualities of yarn. Whatever that may be, it must be admitted that in recent years, the area under cultivation of long staple cotton has increased, and so also the consumption of this cotton by Indian mills. It was reported by the Special Tariff Board on Cotton Textile Industry (1936) that the mills in Ahmedabad have been able to make substantial progress in spinning yarns upto counts of 50's and 60's required for meeting the demand of finer qualities of cloth which hitherto has been largely met by imports from abroad. In Bombay also some mills are producing larger quantity of high grade yarn and cloth. The progress in this respect in other parts of India is not worth mention. The following figures for the mill production of yarn and above 40's counts for Bombay City and Island, Bombay Presidency and Ahmedabad, as collected by the Special Tariff Board are important.

(In thousands of lbs.)

Counts	*Bombay City and Island*		*Ahmedabad*		*Bombay Presidency*	
	1930-31	1934-35	1930-31	1934-35	1930-31	1934-35
41-50	7726	10417	5256	10822	13895	21935
51-60	2034	2371	4355	8930	7704	10398
61-80	669	738	734	270	1695	3076
81-100 ..	64	110	302	524	412	715
100 up ..	..	29	..	21	..	51
TOTAL ..	10493	13665	10647	20567	23706	36175

It will be seen that quantitatively India is a large producer of cotton, and, qualitatively, though she produces inferior stuff, yet in recent years she has made sufficient progress, which, if proper care is taken, can definitely be maintained. A comparative study of the yarn production in India by counts and the progress made in this respect can be obtained from the following table.

Source : Bombay Cotton Annual No. 19
(In lbs.)

Year 31*st March*		*Counts* 1-10	*Counts* 11-20	*Counts* 21-30	*Counts* 31-40	*Counts* above 40
1918-19	..	87319699	314540680	189204470	19189215	4555242
1924-25	..	92795653	377014598	223812063	19367708	5822227
1928-29	..	78887734	303135800	213013236	37487974	10029271
1929-30	..	105463360	387918822	271824310	46365137	15278339
1930-31	..	113588158	400150519	259689569	60746714	27310831
1931-32	..	116899114	445157934	294005342	71073075	34001363
1934-35	..	109710003	463460247	282413512	96043918	43876496
1935-36	..	110713899	480206261	287744760	112339259	58528164
1936-37	..	111692937	476966877	268678211	123007542	61851698
1937-38	..	113671570	494273766	302812782	152455137	85112656

The above table shows that yarn production above 40 counts has made considerable progress since the first great war, and particularly since 1930-31.

The cost of production of cotton textiles depends not only on the quantity produced and quality offered but also to a great extent on the price at which cotton is purchased. We have already seen that 40 p.c. of the total works cost has been covered by raw material itself. The importance of price of raw material as a factor affecting cost and efficiency increases all the more because of the fact that with the increasing use of long staple cotton, cost of raw material will go up increasing as the price of long staple cotton is bound to be much higher than the price of short staple cotton. This cost is bound to go up all the more in view of the fact that with the increasing use of long staple cotton, the proportion of cost of raw material to total cost is most likely to increase. Thus in England experience has shown that "materials....have formed rather more than 70 p.c. of the cost of spinning American Cotton and wages and salaries roughly 13 p.c. In the spinning of finer counts from Egyptian Cotton, materials accounted for from 70 to 75 p.c. and wages and salaries between 16 and 18

p.c." Where raw material constitutes so larger a part of the total expenses of production, not only the price ruling at a particular moment but also the course of prices are important. For the fluctuation in prices is sure to affect the relative proportion of different costs and introduces an element of uncertainty which is very much harmful to trade and industry. It may be noted that since the year 1933—we are not considering the conditions before and during the years of depression—price of cotton in hedge contracts has not been stable but has fluctuated from time to time. Of course, there was no long range fluctuation during 1933-38; but what the manufacturer is more concerned is not so much the long range fluctuation at the day to day fluctuation. Leaving aside the day to day fluctuations, it may be said, broadly, that price of cotton showed an upward tendency from the middle of the year 1936 and this tendency continued right upto the middle of the year 1937, after which there was a considerable decline. In foreign market also, so far as the price is concerned, Indian Cotton has always been in a favourable position throughout this period. Thus the price per lb. of Broach including freight from Bombay to Liverpool has all through been less as compared with the Liverpool hedge contract quotations of American Middling.

No less important is the method of purchase of raw material in case of an industry where cost of raw material plays such an important part. In this respect the Tariff Board of 1926-27 made certain recommendations with regard to the system of hedge contracts. It is well known that two methods of purchase of cotton prevail in this country, one in Bombay Market and the other by an increasing number of mills by sending their own agents to the cotton-growing districts to buy cotton on the spot and arrange for it to be ginned, pressed and transported to the mill. Both the practices have their strong and weak points. But the latter practice has the greater defect in view of the fact that outside the Bombay market, there is no organised system of hedge contracts and therefore transactions tend to become speculative in character. Even in the Bombay market certain differences of opinion cropped up regarding the working of the hedge contract system. Be it recalled that upto the year 1918-19 the Bombay Cotton Trade Association was the authoritative institution for all transactions regarding the supervision of spot and future business. But as a result of heavy speculation that prevailed during the first great war in both spot and futures transactions, the Government established Cotton Contracts Board for the regulation of the market. In 1922, the East India Cotton Association Ltd. was started as a private concern and the Government transferred all the former activities of the Cotton Contracts Board to the newly started Association. Since the Tariff Board reported in 1927 on the Cotton Textile Industry,

a difference of opinion arose between the Millowners' Association Bombay and East India Cotton Association Ltd. regarding the working of the hedge contract system. The Millowners' Association was in favour of a single hedge contract on the lines of Liverpool which would include most of the cottons of India; but the Brokers' Association recommended for a considerable number of contracts on a narrow basis. But both these Associations admitted the deficiency of their schemes before the Cotton Contracts Act Committee appointed by the Government of Bombay in 1930. For, while the Millowners' Association admitted that the time was not ripe for the introduction of a single hedge contract, the Brokers' Association thought it improbable that the "Bazar" would be willing and able to trade in a very considerable number of hedge contracts. Whatever that may be, the consensus of opinion among all sections of trade was in favour of three hedge contracts which would cover the three main divisions into which the cotton of India can be distributed, and accordingly we have hedge contracts in Bengal, Broach and Fine Oomra. But then there arose some difference of opinion regarding the broadening of the Broach Contract which was neither liked by the Cotton Trade nor by the East India Cotton Association, and by the time the Tariff Board (1932) reported, "the subject has received considerable expert attention since the Tariff Board (1927) reported and it does not appear that further investigation will lead to any practical result."

The raw material for jute industry is wholly produced in this country, India having a virtual monopoly in this respect. In recent years efforts have been made for finding out substitutes and these efforts have to some extent been successful. But the fact is that these substitute fibres are not produced on so large a scale as to meet world demand, and, on the other hand, no cheaper fibre is procurable for bagging agricultural produce. From the standpoint of quality also, other fibres are not so strong as jute. Thus from the standpoint of quality, quantity and cost, jute stands in an advantageous position. The increasing demand for the fibre can be illustrated by a comparison of the price of raw jute, which is given in the following table.

Wholesale Price of First Grade Jute in Calcutta per Bale of 400lbs.—In Rupees

(*Source : Handbook of Commercial Information.*)

1851	1913-14				1933-34				1935-36				1945
	Apr.	July	Oct.	Jan.	April	July	Oct.	Jan.	April	July	Oct.	Jan.	June
14½	59	69	83	85½	25¼	29¾	25½	26½	31¾	36	31	3	79

It will be seen that with the increased demand for fibre, the price of jute has gone up. Not only that ; there has been an extension of cultivated acreage as well. Before the second quarter of the 19th century, jute was hardly cultivated except for local use; but since then it has extended very rapidly, and it is exported either raw or manufactured, in rapidly increasing quantities. The first shipment of raw jute from India was made as early as the last decade of the 18th century; but it was only in the thirties of the 19th century that the flax and hemp spinners of Dundee began the manufacture of jute fabrics on power loom. Till the end of the second quarter of the 19th century, the Bengal handloom industry had retained its vitality and supplied the European market with manufactured goods, export of raw jute being of secondary importance. But when during the Crimean War the supply of Russian flax was stopped, the U. K. began to exploit raw jute as a commercial fibre and from this time onwards, the export of raw jute from India increased. Among other customers of raw jute mention may be made of Germany, U.S.A., Italy and Spain. During the first great war, supplies to Germany were stopped, but recovered after the Armistice. The flow of exports continued then till the years of great depression, when it declined, to be revived again from 1933-34.

Although jute is the monopoly of India, yet efforts are being made to find out substitutes and these efforts have to some extent been successful. It is, of course, true that as yet jute enjoys superiority in many respects; but it may so happen that it may have to yield in time to the substitutes unless the agricultural efficiency is increased from now. In this respect nothing has as yet been done which is worth mention. Machine treatment for the extraction of fibre has never gone beyond the experimental stage. Efforts should be made, by scientific researches, to increase the staple length and quality of jute and also to reduce cost by machine treatment of the extraction of fibre. The only measure that has been adopted so far is aimed at not so much towards improving the agricultural efficiency as at maintaining the prices of raw jute by putting a restrictive limit on the cultivation. This only solves the problem partially. A proper solution would be to increase the agricultural efficiency and consequent reduction of cost, thereby finding an expanding market for the fibre.

No less important is the consumption of raw jute by the jute industry, which in point of efficiency organisation "is perhaps second to none in India." The story of the rise of the industry in this country is one of European enterprise. The first jute spinning machine was installed in this country as early as 1855 and the first power loom in 1859. At first the quality of jute manufac-

tures was inferior to that produced in Dundee and therefore they commanded only the local market. But this handicap was short-lived; there was a great improvement in quality and hence in competitive efficiency and the export of jute manufactures went up, so much so that the Dundee manufacturers of jute raised a cry against this and brought pressure on the administration for introducing factory legislation in India, thereby putting certain disabilities on the competitive position of the Indian mills. But these measures did not restrict exports, except during years of depression. Meanwhile the jute industry set its own house in order by removing internal competition when the Jute Mills Association was started with a view to regulate output. At the beginning of the present century, the progress of the Indian industry was still more rapid and it was producing an output in excess of that produced in Dundee. Not only the mill consumption of raw jute in India increased, but there was an increased export of jute manufactures which surpassed the export of raw jute. The following table shows the contract in values, percentages and totals of raw and manufactured jute exported in 1913-14 and 1935-36.

(*Source : Handbook of Commercial Information*)

Articles	1913-14		1935-36	
	Value	Percentage	Value	Percentage
Jute:—	£		£	
Raw	20551000	52.7	10280726	37
Manufactured	18849000	47.3	17617088	63
TOTAL ..	39400000	100.00	27897814	100.00

In matters of quantity exported, it is interesting to note that while the tonnage for the export of raw and manufactured jute are about the same in 1929, by 1938-39, the export of manufactured jute exceeds that of raw one by 50 p. c. and by 1939-40, it is double the latter. This rapid increase in the manufacture of jute and that of export is not only due to the most efficient organisation of the industry itself, but also due to the operation of certain advantages, the principals of which are "the proximity to the raw material, the absence of social burdens (such as heavy taxation) and the plentiful supply of cheap labour."

RESERVE BANK AND THE MANAGEMENT OF PUBLIC DEBT—I

BY

M. SITARAMAYYA, M.A. (COM.)

Andhra University

Under Sec. 21 (2) of the Reserve Bank of India Act and in view of the agreement entered into by the Bank on 5th April, 1935, the Bank has been entrusted with the management of the rupee debt of the Central Government and the maintenance of Accounts relating to them vested in the Central Public Debt Office, Calcutta. At Bombay, Delhi and Madras also there are Public Debt Offices entrusted with certain functions of the Central Public Debt Office, which are managed by the local offices of the Reserve Bank. The statutory duties in relation to public debt which were previously performed by the Controller of Currency are now exercised by the Bank after the abolition of the Controller's Office. Since the inauguration of the Provincial Autonomy the management of the Provincial Government loans has also been entrusted to the Public Debt Office.

The functions performed by the Public Debt Office are :—

(1) Payment of half-yearly interest on Government Securities;

(2) Enfacement of Securities for payment of interest at a treasury;

(3) Renewal, conversion, consolidation and sub-division of different kinds of Government Securities—Stock Certificates, Promissory Notes and Bearer Bonds;

(4) Investigation of disputed cases and of claims relating to issue of duplicates lost, stolen or destroyed securities;

(5) Re-payment of loans notified for redemption;

(6) It also floats new loans of the Central and Provincial Governments and arranges in that connection the receipt of subscriptions at the branches of the Imperial Bank of India and at Government treasuries and supplies scrip to them for delivery to subscribers.

For efficient management, the administration of the Public Debt has been decentralised and each of the four Public Debt Offices supervises the work of the treasuries under its jurisdiction in connection with the Central and Provincial Govern-

ment loans and audits the interest payments thereat. With the outbreak of the War, borrowing by the Central Government has vastly increased, which meant expansion in the activities of the Public Debt Offices.

For the management of the Public Debt, the Bank is entitled to a commission at Rs. 2,000 per crore per annum on the amount outstanding at the close of the half-year. 'Government borrowing comprised both short term by Treasury Bills and Ways and Means advances and long term by floating the Rupee and the Sterling loans and by other methods.

SHORT TERM BORROWING

Central Government Treasury Bills

These bills are a form of short term borrowing of the Government and are usually issued for a term of three months. They are sold by the Reserve Bank either by tender or at an intermediate tap-rate. If tenders received are in excess of the amount offered, a proportionate allotment is made, the minimum allotment being Rs. 25,000. Treasury bills are available in the following denominations only, viz., Rs. 25,000, Rs. 50,000, Rs. 1 lakh, Rs. 5 lakhs, Rs. 10 lakhs and Rs. 50 lakhs. When it is decided to sell intermediate Treasury bills on tap, an announcement to that effect will be made together with the rate for such bills. On maturity the treasury bills are paid at the offices of the Reserve Bank from which they were issued.

When Government require temporary accommodation for shorter periods for which the issue of treasury bills is not suitable, they borrow from the Reserve Bank in the form of ways and means advances.

The details of the treasury bills sold and of ways and means advances taken by the Central Government from time to time are shown in the following tables :

GOVERNMENT OF INDIA TREASURY BILLS SINCE 1935

(In Thousands of Rupees)

Year	*Amount offered for tender*	*Amount tendered*	*Amount sold*	*Amount of Intermediates sold*	*Total Amount sold*	*Amount of sales to the Issue Department*	*Amount outstanding with the public*	*Total discharged*	*Total amount outstanding of Ways and Means advances and treasury bills including amount outstanding on account of the Issue Deptt., the provinces and Burma*	*Average yield per cent per annum*	*Average rate of discount per annum*
1935-36 ..	580000	1135150	577675	127375	705050	1005200	120325	767450	321300	1.21	1 3 4
1936-37 ..	830000	1259900	809850	Nil.	809850	629350	159825	770350	285375	0.78	0 12 0
1937-38 ..	720000	1178600	719925	Nil.	719925	198900	181150	698600	380050	0.96	0 15 6
1938-39 ..	835000	1289025	821325	153575	944900	1001200	267900	891150	463000	1.63	1 6 11
1939-40 ..	715000	1169650	705000	499300	1204300	1049500	279625	1154150	547050	1.87	1 13 11
1940-41 ..	840000	1624800	840000	173275	1013275	1407600	255175	1037825	849025	0.89	0 14 3
1941-42 ..	810050	1402700	810050	375950	1186000	2914800	277825	3420050	1369775	0.72	0 11 7
1942-43 ..	3170000	5274350	3094200	625075	3719275	4964200	1239750	7406275	2646950	0.87	0 13 11
1943-44 ..	3840000	6285900	3597125	364750	3961875	2757300	760675	4370250	1106125	0.90	0 14 5
1944-45 ..	2520000	5514850	2292775	Nil.	2292775	1448125	368250	2685200	867050	0·49	0 7 10

Particulars of the transactions in Central Government treasury bills since 1935 are given in the above statement. The increasing extent of short term borrowing during the period is reflected in the progressive rise in the amount of treasury bills outstanding from year to year. The total amount of treasury bills outstanding at the end of 1942 -43 was Rs. 264.70 crores as compared with Rs. 32.13 crores in 1935-36. Among the factors responsible for this marked increase in the treasury bill debt may be mentioned :—

(1) the obligation laid on the Central Government by Sec. 36 of the Bank Act for payment to the Reserve Bank on return of surplus rupees, and the consequent return of Rs. 5 crores of surplus rupees in each of the years 1937-38 and 1938-39 and the payment of the same to the Reserve Bank in treasury bills;

(2) the deterioration in the revenue position of the Government of India;

(3) the need to provide for the defence capital expenditure;

(4) the financial operations connected with the funding of the railway annuities and the acquisition of railway debentures and

(5) as a result of sterling debt repatriation operations.

A modification in the method of payment for accepted tenders was introduced with effect from July 1942, by which a successful tenderer was permitted to offer, in lieu of payment in cash against allotment such treasury bills in his position as matured between the day on which the tender result was published and the day preceding the next publication. The amount of treasury bills offered for reconversion in this manner amounted to Rs. 16.50 crores during 1943-44 as against Rs. 8.31 crores during the previous year.

The introduction of the new constitution in 1937 resulted in the separation of Provincial balances and in the case of some of the Provinces there were some surplus funds, for which they wished to find short term investments. It was accordingly decided that the Reserve Bank should provide for the present their requirements from its own holdings of treasury bills. Since then the Reserve Bank sold to the Provincial Governments the bills required by them out of its own holdings in the Issue Department and replace these bills by taking from the Central Government fresh bills at the "tap". Similar facilities were also extended to the Government of Burma.

The money market continued to be easy throughout the period and applications consequently were well above the amounts offered. The total amount tendered in 1943-44 excluding intermediates was Rs. 628.59 crores against an offer of Rs. 384 crores as compared with Rs. 527.43 crores against an offer of Rs. 317

crores in 1942-43. The average rate of discount of both the accepted tenders and intermediates varied according to the conditions of the money market, the supply of funds and the political disturbances during the period. In the first few years, there was a decline in the rate. But with the outbreak of War in Europe there was a sharp rise in the rates of discounts in sympathy with a rise in the rate for three months British Government Treasury Bills. The highest rise recorded was Rs.2-12-9 per cent in the week immediately preceding the outbreak of war, when the international tension was at its height. Easy money conditions, combined with a substantial maturities depressed the treasury bill rate after 1940 and the yield was thus comparatively low.

The following table gives comparative treasury bill rates for the six years ended 1944 in certain other European countries :

TREASURY BILL RATES

(Per cent Per Annum)

Year Average	*United Kingdom*	*Canada*	*Australia*	*South Africa**	*India*
1938 Average ..	0.61	0.59	1.75	0.75	1.30
1939 " ..	1.19	0.71	1.75	0.75	2.01
1940 " ..	1.03	0.70	1.58	0.75	1.21
1941 " ..	1.01	0.58	1.50	0.75	0.74
1942 " ..	1.00	0.54	1.50	0.75	0.86
1943 " ..	1.00	0.48	1.46	0.75	0.96
1944 " ..	1.00	0.39	1.25	0.75	0.57

Ways and Means Avances

The borrowings of the Central Government from the Reserve Bank of India and the transactions in treasury bills during the period, together with the amounts outstanding are shown in the following table :—

* Six Months Bills.

WAYS AND MEANS ADVANCES AND TREASURY BILL TRANSACTIONS (WITH THE PUBLIC)

(In Thousands of Rupees)

Year	WAYS AND MEANS ADVANCES			TREASURY BILLS			
	Advances taken	*Advances repaid*	*Outstanding at the end of year*	*Sale*	*Discharge*	*Outstanding at the end of each year*	*Total outstanding of Ways and Means Advances & Treasury Bills*
Opening balance on 1st April, 1935	..	..	Nil.	..	..	18,27,25	18,27,25
1935-36 ..	24,00,00	24,00,00	Nil.	70,50,50	76,74,50	12,03,25	12,03,25
1936-37 ..	51,00,00	51,00,00	Nil.	80,98,50	77,03,50	15,98,25	15,98,25
1937-38 ..	18,00,00	18,00,00	Nil.	71,99,25	69,86,00	18,11,50	18,11,50
1938-39 ..	32,50,00	32,50,00	Nil.	97,49,00	89,11,50	26,79,00	26,79,00
1939-40 ..	32,50,00	32,50,00	Nil.	120,43,00	115,41,50	27,96,25	27,96,25
1040-41 ..	52,00,00	36,00,00	16,00,00	101,32,75	103,78,25	25,51,75	41,51,75
1941-42 ..	97,00,00	113,00,00	Nil.	118,60,00	342,00,50	27,78,25	27,78,25
1942-43 ..	162,00,00	162,00,00	Nil.	371,92,75	740,62,75	123,97,50	123,97,50
1943-44 ..	31,00,00	31,00,00	Nil.	396,18,75	437,02,50	76,06,75	76,06,75
1944-45 ..	Nil.	Nil.	Nil.	229,27,75	268,52,00	36,82,50	36,82,50

The increasing extent of short-term borrowing by the Central Government during the period under review is shown by the marked rise in the figure of advances taken and in the sales of treasury bills, necessitated under the circumstances stated previously. But with the great improvement in the Government's ways and means position as reflected in the high level of their balances, they had no need to approach the Bank for temporary advances during the year 1944-45; the total amount of such borrowings from the Bank had been Rs. 31 crores in 1943-44 as against Rs. 162 crores in 1942-43.

LONG TERM DEBT AND OTHER BORROWING

Composition of Total Rupee and Sterling Debt Since 1913-14

The following tables give the outstandings of the rupee and sterling liabilities of the Central Government at the end of each quinquennium from 1913-14 to 1938-39 and at the end of each financial year thereafter. The terminable part of the funded debt in tables (a) and (b) is classified according to the period of maturity.

It will be seen that up to the end of 1933-34 both the rupee and the sterling debt continued to increase. The rupee debt, however, rose faster, having doubled during the quinquennium ended March 1919, from Rs. 180 crores to Rs. 359 crores and nearly quadrupled during the 20 years up to the end of 1933-34, when it stood at Rs. 693 crores. The sterling debt meanwhile had about doubled. After 1933-34 the sterling debt progressively declined from the peak of Rs. 512 crores at the end of 1933-34 to Rs. 180 crores at the close of 1941-42, the total amount reduced during the last four years being Rs. 289 crores. On the other hand, the rupee debt has increased since 1934 by Rs. 249 crores from Rs. 693 crores to Rs. 942 crores.

The growth of India's rupee debt since 1913-14 has been most marked in respect of the terminable stocks, the aggregate amount of undated loans remaining stable until the last few years it was augmented by the rupee counterparts of sterling undated loans. The dated liabilities rose from a crore at the end of 1913-14 to Rs. 115 crores at the close of 1918-19, Rs. 309 crores at the end of 1939-40 and Rs. 451 crores on the 31st March 1942. The proportion of terminable debt outstanding to the total liabilities was nearly one-half at the close of 1941-42 compared with one-third at the end of 1918-19 and less than one per cent. in 1913-14.

The outstandings of treasury bills up to the end of 1939-40 ranged between Rs. 43.15 crores and Rs. 59.24 crores. They increased to Rs. 69 crores at the end of the year 1940-41 and doubl-

PUBLIC DEBT OF INDIA SINCE 1913-14

(A) Rupee Debt

(In Crores of Rupees)

	1914	1919	1924	1929	1934	1939	1940	1941	1942	1943	1944	1945 (preliminary)
Undated	144.52	143.20	137.25	137.41	126.69	128.46	139. 3	148 52	164.18	254.50	283.99	284.03
Dated	1.00	115.29	220.67	252.84	307.88	309.40	310.3	428 36	447.68	503.23	722.67	927.88
Treasury Bills ..	..	49.24	51.77	43.15	59.24	46.30	54.71	68.90	136.98	264.70	110.61	86.71
Post Office Savings Bank Deposits & Cash Certificates	23.17	27.03	33.21	56.79	115.94	141.46	135.35	108.80	95.53	92.77	118.47	115.77
Other obligations*	11.08	24.02	39.62	61.04	83.34	84.34	87.48	106.59	96.61	99.98	107.05	115.71
Total ..	179.77	358.78	482.52	551.21	693.09	709.96	727.79	861.17	941.00	1206.18	1342.69	1571.85
Percentage increase + decrease— ..	..	+99.5	+35.5	+14.2	+25.7	+2.4	+2.6	+18.3	+ 9.3	+28.2	+11.3	+17.1

* Includes:—(1) unclaimed balance of old loans which have ceased to bear interest from the date of discharge.

(2) balance of special loans—Endowments made by the late king of Oudh for pensions and stipends; for religious charity purposes.

(3) balances of State Provident Funds, Pension Funds—Postal Insurance Fund and Life Annuity Fund etc.,

(4) the amount of Three-Year Interest-Free-Bonds and Five-Year Interest Prize Bonds.

B) STERLING DEBT*

(*In Crores of Rupees*)

	End of March 1914	1919	1924	1929	1934	1939	1940	1941	1942	1943†	1944†	1945†
Undated ..	265.57	257.80	366.80	296.61	269.19	268.05	255.63	246.81	134.00	20.32	3.35	2.96
Dated Loans .	..	45.96	28.70	174.69	241.58	196.87	182.68	94.30	72.93	31.56	31.35	31.24
Other obligations‡ ..	0.24	0.32	2.06	1.58	1.38	4.18	4.18	3.82	3.77	3.71	4.44	3.60
TOTAL ..	265.81	304.08	397.76	472.78	512.15	469.10	442.49	334.93	210.70	55.59	39.14	37.80
Percentage increase+ decrease— ..	..	+14.4	+30.8	+18.9	+ 8.3	— 8.4	— 5.7	—22.1	—38.9	—73.6	—28.4	— 3.4

* Converted at 1s. 4d. per rupee up to 1923-24 and thereafter at 1s. 6d.

† Includes:—(1) Unclaimed balances of old loans which have ceased to bear interest from the date of discharge.
(2) Balances relating to Service Funds.

‡ Excluding Railway Annuities.

PUBLIC DEBT OF INDIA SINCE 1934-35

CONSOLIDATED STATEMENT OF TABLES (A) AND (B)

Items	*End of March* 1934	1939	1940	1941	1942	1943	1944	1945	*Increase + or decrease —over* 1934
Sterling loans	510.77	464.92	438.31	341.11	206.93	51.88	34.70	34.20	−479.53
Rupee loans	434.57	437.86	450.27	576.88	611.86	748.73	1006.56	1211.91	+777.34
Treasury Bills and Ways and Means Advances	59.24	46.30	54.71	84.90	136.98	264.70	110.61	86.71	+27.47
Post Office Savings Bank Deposits & Cash Certificates ..	115.94	141.46	135.35	108.80	95.55	92.77	118.47	157.52	+41.58
Other Rupee Obligations ..	83.34	84.34	87.48	106.59	96.61	99.98	107.05	115.71	+33.37
Other Sterling Obligations ..	1.38	4.18	4.18	3.82	3.77	3.71	4.44	3.60	+ 2.22
TOTAL ..	1205.24	1179.06	1170.30	1222.10	1151.70	1261.77	1381.83	1609.83	+403.59

ed during 1941-42, standing at Rs. 127 crores at the close of the year.

The post office savings deposits and cash certificates rose steadily from Rs. 23 crores at the close of 1913-14 to Rs. 141 crores at the close of 1938-39. Since the outbreak of War, the deposits have declined every year and stood at Rs. 95 crores at the close of 1941-42.

The growth of India's Public Debt since 1942-43 has been more marked and the increase has been much quicker during the last two years, when compared with the previous period. The total Public Debt of India on the 31st March 1943, 1944 and 1945 stood at Rs. 1265.86 crores, Rs. 1381.83 crores and Rs. 1609.65 crores respectively of which the sterling obligations accounted for Rs. 57.41 crores, Rs. 39.14 crores and Rs. 37.80 crores for the corresponding years.

There has been a heavy decline in the volume of floating debt represented by the treasury bill outstandings during the last two years, while there has been a large increase in the volume of terminable loans. The treasury bill outstandings on the 31st March 1943, 1944 and 1945 were Rs. 264.70 crores, Rs. 110.61 crores and Rs. 86.7 crores showing a heavy decline, while the terminable part of the rupee debt stood at Rs. 503.23 crores, Rs. 722.67 crores and Rs. 927.88 crores showing a very rapid increase.

The decline in the amount of small savings, in post office savings bank deposits and cash and savings certificates, noticeable in the prior period is followed by a rapid recovery since 1943 and the amounts of small savings etc., on the 31st March, 1943, 1944 and 1945 were Rs. 92.77 crores, Rs. 118.47 crores and Rs. 157.75 crores respectively.

The progressively rapid increase in the rupee debt during the War period as shown by the following table :—

1939-40	1940-41	1941-42	1942-43	1943-44	1944-45
Rs. 18 crores	Rs. 152	Rs. 231	Rs. 497	Rs. 623	Rs. 860 crores

reflects the results of revenue deficits, capital expenditure and repatriation of sterling debt.

The practical elimination of sterling loans in 1944-45, which before War actually exceeded the value of rupee loans is also noticeable. The entire sterling debt at the end of 1944-45 comprised Rs. 34.20 crores of loans (including Rs. 20.62 crores of British War loan 1929-47 on account of War contribution) and Rs. 3.60 crores of service funds as against Rs. 464.94 crores in 1938-39.

The table given below gives out the consolidated position of the Public Debt of India during the War period from 1938-39 to 1945-46 :—

PUBLIC DEBT OF INDIA SINCE 1938-39

(In Crores of Rupees)

Items	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45 (*Revised*)	Total 1939-40 *to* 1944-45	1945-46 (*Budget*)
(1) Sterling loans	464.94	439.10	341.11	206.93	50.56	34.70	34.10	−430.84*	34.04
(2) Rupee loans	437.94	450.23	574.55	611.85	748.74	1006.55	1190.98	+753.11*	1484.43
(3) Small Savings	141.45	135.35	108.79	95.56	92.77	118.47	157.25	+ 15.80*	205.95
(4) Treasury Bills and Ways and Means Advances ..	46.30	54.70	84.90	136.98	264.70	110.61	86.61	+ 40.31*	86.61
(5) Total Interest bearing obligations including unfunded debt and deposits	1205.76	1203.86	1247.67	1209.21	1353.13	1532.47	1819.02	+613.26	2180.57

Items (1) and (5): Capital portion of Railway Annuities is excluded from 1942-43.

* Variation between 31st March, 1939 and 1945.

The outstanding features of the Public Debt of India brought out by the table are a 51 per cent increase in the total interest bearing obligations of the Government of India (including unfunded debt and deposits); a steady rise up to 1942-43 in the amount of terminable and non-terminable loans, partly issued in connection with the repatriation of sterling loans, followed by a quicker increase in the same during the last two years; a very considerable increase up to 1942-43 in the volume of floating debt represented by treasury bills outstanding to about six times their pre-war amount, largely issued on account of the repatriation of sterling debt and a very heavy decline in that volume during the last two years, while with a large increase in the volume of funded debt; a decline up to 1942-43 in the amount of small savings, in post-office savings bank deposits, cash and savings certificates etc., followed by a relatively rapid recovery during the last two years (primarily owing to the introduction of national savings certificates). The practical elimination of sterling loans, which before the War actually exceeded the volume of rupee loans, is also indicated in the above table.

The total interest bearing obligations thus increased by Rs. 642 crores from Rs. 1206 crores at the end of 1938-39 to Rs. 1848 crores at the end of 1944-45 (revised). These figures include liabilities in respect of the British War Loan which remains suspended since 1931-32 and the capital portion of the Railway Annuities which were funded in 1942-43. Similarly the balances of depreciation and reserve funds of Railways, Posts and Telegraphs and certain other deposits in respect of excess profits tax and the income tax are also included. Deducting liabilities in respect of these items, the total interest bearing debt may be placed at Rs. 1558 crores at the end of 1944-45 as compared with Rs. 1158 crores at the end of 1938-39. Against the total debt of Rs. 1848 crores at the end of 1944-45, the assets held by Government totalled Rs. 1316 crores made up of :—

(*i*) the capital outlay on Railways Rs. 788 crores,
(*ii*) Capital advance to other commercial departments of the Central Government, Provinces and States Rs. 138 crores,
(*iii*) debt due from Burma Rs. 48 crores;
(*iv*) deposits from His Majesty's Government for redemption of Railway annuities Rs. 29 crores; and
(*v*) cash and securities held on treasury account Rs. 312 crores.

Rupee Debt

The Rupee debt outstanding at the end of March 1934 amounted to Rs. 693.09 crores. Details of the Rupee loan floatations since then the creation of rupee-counterparts for the repatriated

sterling debt or re-issues of existing loans into which some of these counterparts were converted and the receipts from various Defence Savings loans, inaugurated by the Indian Defence Savings Movement on the 4th June 1940, as a main item in Government's anti-inflationary drive, the provisions in the budget proposals of 1942-43 for encouragement of savings as an alternative to higher taxation, are given below.

On the 30th July, 1935, Government issued a 3 per cent. 1951-54 taxable loan of Rs. 15 crores at Rs. 96-8 per cent. Subscriptions to the loan were payable in cash, 5 per cent. Bonds 1935 and 6½ per cent Treasury Bonds 1935.

General market conditions on the eve of the issue were favourable and the lists were closed in a few minutes of their opening. The total amount offered was Rs. 29.53 crores of which Rs. 16.53 crores were by tender of cash, Rs. 8.37 crores by tender of 5 per cent. 1935 Bonds and Rs. 4.63 crores by tender of 6½ per cent. 1935 Treasury Bonds. Tenders of 5 per cent 1935 Bonds were accepted in full at Rs. 100-7 of each of Rs. 100 nominal value of the Bonds tendered and also tenders by cash for Rs. 5000 and over. Other cash applications were allotted 11 per cent.

There were three maturing loans during the year in India, viz.,

(1) five per cent 1935 Bonds amounting to Rs. 11.43 crores,
(2) 6½ per cent. Treasury Bonds amounting to Rs. 16.10 crores and
(3) 6½ per cent Bombay Development loan amounting to Rs. 9.38 crores,

aggregating to Rs. 36.91 crores. Government repaid the Bombay Development loan as well as the portion of 5 per cent. and 6½ per cent Bonds outstanding after the conversion operations. Thus they redeemed nearly Rs. 37 crores as against a fresh borrowing of Rs. 15 crores.

Government had no loans to pay during the year 1936-37 and no provision was made for a new rupee loan in the budget for the year. They, however, decided to take advantage of the favourable conditions in the money market and issued a taxable 2¾ per cent loan 1948-52 for Rs. 12 crores at par. Subscriptions to the loan were receivable in the form of cash only and the minimum amount for application was Rs. 5,000. The lists were opened for subscription on the 26th May and the issue was oversubscribed within a few minutes.

No Government of India loans matured in the course of the year 1937-38 and as new capital expenditure was on a comparatively small scale, it was not found necessary to float any new loan either in India or in England.

On the 13th May, 1939 the Central Government announced

a 3 per cent. combined cash and conversion loan repayable not earlier than 1963 and not later than 1965 at Rs. 98 per cent. Subscriptions were payable in cash, or 5½ per cent 1938-40 Bonds, or 5 per cent. 1939-44 loan. These were accepted in payment for the new loan at Rs. 101-12-0 and Rs. 104 per Rs. 100 normal value. Conversion applications were allotted in full; cash applications up to Rs. 5000 were also allotted in full, those between Rs. 5,000 and Rs. 10,000 were allotted Rs. 5,000 and those above Rs. 10,000 received 50 per cent. The total allotment including Rs. 6.33 crores in cash amounted to Rs. 26.31 crores. Market conditions being favourable the loan was oversubscribed within a few minutes of the opening of the lists and was quoted at a small premium immediately afterwards. The success of the issue had a good effect on the prices of the gilt-edged securities.

On the 1st July, 1940 the Central Government announced a second issue of the 3 per cent loan 1963-65 at an issue price of Rs. 98 per cent. Subscriptions, which were received on the 5th July, only, were payable in cash, or 5 per cent loan 1939-44 or 5 per cent. loan 1940-43. The amount offered for subscription was Rs. 15 crores. The 5 per cent loan 1939-44 and the 5 per cent 1940-43 were accepted in subscription to the new loan at a cash equivalent of Rs. 100-6-0 and Rs. 104 respectively per Rs. 100 of the nominal value of the securities tendered. The total subscriptions applied for and allotted were as follows :—

Cash	Rs. 1,34,58,400
5 per cent loan 1939-44	,, 8,23,58,800
5 per cent loan 1940-43	,, 6,13,90,800
Total ..	,, 15,72,08,000

Considering the uncertainties of the international situation at the time of issue, the results of the loan may be regarded as satisfactory.

Government of India Defence Loans

The loan programme of the Central Government in 1940-41 was merged in the Indian Defence Savings Movement as announced on the 4th June, 1940. This included the Six Year Defence Bonds, Ten Year Defence Savings Certificates and Three Year Interest-Free Bonds. Later on the 25th January, 1941, the Government announced a second 3 per cent Defence Loan in place of the Six Year Defence Bonds.

Interest-Free Bonds were issued at par with effect from the 10th June, 1940, and were obtainable in amounts above Rs. 50 in the form of stock certificates until further notice. Subscriptions to these are to be in cash only. The Bonds are repayable at par

on the expiry of 3 years from the date of issue, on 3 months' notice. In case of emergency the holder can cash them at par in accordance with the terms of the Government of India notification dated the 4th June, 1940. The total subscriptions to these Bonds by the end of 1940-41 amounted to Rs. 2,32,92,962.

The 3 per cent Six Year Defence Bonds were also issued with effect from the 10th June, 1940, at par and are repayable at Rs.101 for every Rs. 100 nominal after the expiry of 6 years from the date of issue. The total value of the Bonds that might be held by an individual was limited to Rs. 15,000 nominal. The total subscriptions to this issue amounted to Rs. 71,29,200. A second series of the Bonds, the 3 per cent Defence Bonds 1946 repayable at Rs. 101 on the 1st August, 1946, was issued to replace this with effect from the 1st August, 1940. Subscriptions were to be either in cash or in the form of 5 per cent 1940-43 loan. The total applications which were allotted in full, amounted to Rs.44,43,01,900, Rs. 30,97,78,200 having been tendered in cash and the balance of Rs. 13,45,23,700 by conversion.

The sale of these Bonds was discontinued on the 25th January, 1941. In their place, the Government issued, as from 1st February, 1941, a second 3 per cent Defence Loan 1949-52 on terms slightly more favourable to the tax-payer. This is repayable at par and subscriptions are receivable without limit of amount until further notice. The subscriptions to this loan up to the 31st March, 1941 amounted to Rs. 3,46,52,000.

The total receipts from the various Defence Loans up to the 31st March, 1941 amounted to Rs. 53,34,76,062 including Rs. 2,41,00,000 for Defence Savings Certificates.

The Central Government during 1941-42 carried forward the Indian Defence Savings Movement, merged in its borrowing programme. It included the 3 per cent Second Defence Loan 1949-52 issued on the 1st February, 1941 to replace the 3 per cent. Six Year Defence Bonds (Second series), Ten Year Defence Savings Certificates, Three Year Interest-Free Bonds and the Indian Post Office Defence Savings Bank. The budget proposals for 1942-43 also included provisions for encouragement of savings as an alternative to higher taxation.

The 3 per cent Second Defence Loan continued to be available up to the 14th February, 1942, when it was closed. The total subscriptions to this loan since its first issue amounted to Rs. 59,05,23,600 including Rs. 5,48,83,000 tendered for conversion in the form of 3 per cent loan 1941. The total receipts from the various Defence Savings Loan up to the 31st March, 1942 amounted to Rs. 112.20 crores.

As a part of their more permanent arrangements for the conversion into rupee loans of the counterparts of the repatriated

sterling loans the Government of India announced in Notification No. F-8 (12)-B 41 dated the 9th June, 1941, their decision to offer to holders of the $4\frac{1}{2}$ per cent 1950-55 and the $4\frac{1}{2}$ per cent 1958-68 rupee counterparts, the option to convert their holdings into the existing 3 per cent 1951-54 and 3 per cent 1963-65 rupee loans respectively on terms based on the market prices of the loans concerned. The offer was kept open from the 16th June to the 21st June. For purposes of conversion, the 1950-55 Loan was accepted at Rs. 110-12-0 per cent and the 1958-68 Loan at Rs.113-8 per cent. The issue price of the 1951-54 and 1963-65 Loans were fixed at Rs.100 and Rs.95 respectively. The total nominal value of the counterparts tendered for conversion including the holdings of the Government and Reserve Bank amounted to Rs. 28.56 crores as against Rs.32.80 crores of the rupee loans issued in exchange.

The conversion offer had no appreciable effect on the gilt-edged market as it was based on the prices ruling at that time.

The 3 per cent Bonds 1941 fell due for repayment on the 15th September, 1941 and the Government of India issued a notification on the 11th August, offering to holders the option to convert their holdings into the 3 per cent Loan 1949-52 (Second Defence Loan) or the 3 per cent Loan 1963-65.

The offer was kept open from the 18th to 21st August. For the purposes of conversion, the 3 per cent Bonds 1941 were accepted at par and the issue prices of the 3 per cent Defence Loan 1949-52 and the 3 per cent Loan 1963-65 were fixed at Rs.100 and Rs. 95 respectively. The face value of the Bonds tendered for conversion amounted to Rs. 8,26,26,800, of which Rs. 5,48,83,600 were converted into the 3 per cent Defence Loan 1949-52 and Rs. 2,77,43,200 into the 3 per cent Loan 1963-65. The total outstanding being Rs. 10,67,31,700, the balance of Rs. 2,41,04,900 was paid in cash on the 15th September, 1941. As the conversion terms were in sympathy with prevailing market conditions the Government Securities market remained unaffected.

On the 6th March, 1942 the Government of India announced that the outstanding balance of the 5 per cent Loan 1942-47 issued as counterpart of the relative sterling stock would be repaid at par on the 15th June, 1942. A similar announcement regarding the corresponding sterling loan was made by the Secretary of State for India.

The Central Government during 1942-43 merged its loan programme with the Indian Defence Savings Movement as first announced on the 4th June, 1940. It included the issue of the 3 per cent Loan 1951-54 (The Third Defence Loan), Ten Year Defence Savings Certificates, Three Year Interest-Free Bonds and facility for opening Indian Post Office Defence Savings Bank Account

bearing interest at $2\frac{1}{2}$ per cent per annum. Besides, there continued to be an offer of Government Loans consisting of rupee counterparts of the repatriated sterling stocks or the re-issue of existing loans into which some of these counterparts were converted.

The issue of the 3 per cent. Loan 1951-54 (The Third Defence Loan) was announced on the 4th July, 1942. The new loan was in the form of a re-issue of the 3 per cent 1951-54 Loan, first issued in 1935 and was on tap from the 8th July, 1942. Securities of the Three Year Interest Free Bonds were made eligible for conversion into the present issue. The total subscriptions to this loan up to the end of March 1943 amounted to Rs. 40,26,58,300 including Rs. 57,100 tendered for conversion in the form of Three Year Interest-Free Defence Bonds.

On the 1st October, 1942, the Government announced a further issue of the existing 3 per cent. Loan 1963-65, for the funding of their liabilities in respect of railway annuities. The issue price was fixed at Rs. 95 for every Rs.100 nominal. Subscriptions to the loan from the public amounted to Rs. 3,41,47,200 and the balance of Rs. 11,58,52,800 was taken up by the Reserve Bank of India against cancellation of an equivalent amount of *ad hoc* treasury bills from its holding.

In addition to the subscriptions to the Defence Loans, there was a steady investment of new money, especially by institutional investors in Government loans. The total investments in the counterparts thus created amounted to Rs. 131.24 crores at the end of 1942-43 as compared with Rs. 83.10 crores at the end of the previous year and Rs. 61.27 crores at the end of 1940-41.

The total receipts from the various Defence Loans and sales of rupee counterparts of sterling loans up to the 31st March 1943 amounted to Rs. 301.50 crores.

As per the announcement made in March 1942 by the Secretary of State for India and the Government of India, the unsurrendered portion of the repatriated 5 per cent Indian sterling stock 1942-47 amounting to £243,750 and the 5 per cent Rupee loan 1942-47 amounting to Rs.29,39,200 issued as counterparts of the former fell due for repayment on the 15th June, 1942, and were paid.

The borrowing programme of the Central Government during 1943-44 carried forward the Indian Defence Savings Movement and formed the main item in Government's anti-inflationary drive. A number of new loans designed to appeal to every type of investor were floated during the year in addition to the sale of rupee counterparts of $3\frac{1}{2}$ per cent undated paper. In the all-important field of small savings, a country-wide National Savings drive was launched in October 1943. As a part of this scheme, the

Post Office Ten Year Defence Savings Certificates which were issued in June 1940 were replaced from the 1st October 1943, by the Twenty-Year National Savings Certificates, giving a slightly higher return. Besides, the Three Year Interest Free Bonds issued in June 1940 the 3 per cent Loan 1951-54 (Third Defence Loan) continued to be sold up to the 30th June and the 3 per cent. Loan 1953-55 (Fourth Defence Loan) was issued from the 3rd July, 1943. Further, premium Bonds carrying no rate of interest but in respect of which half-yearly prices are allotted, were on sale to the public from the middle of January 1944. Government's programme was highly successful and the aggregate investments in Government Loans, both Central and Provincial and in the various forms of postal savings totalled Rs. 349.24 crores or over three times the total of the preceding year.

The subscriptions to the 3 per cent Loan 1951-54 (Third Defence Loan) from the 1st April, 1943 to the 30th June, 1943 amounted to Rs. 14,53,52,000. The 3 per cent Loan 1953-55 (Fourth Defence Loan) was a cash-cum-conversion loan. Subscriptions to it were received also in the form of 4 per cent Bonds (which fell due for repayment on the 31st July, 1943), up to the close of the 17th July, 1943, at the rate of Rs. 100-4 for every Rs. 100 nominal. The total subscriptions up to the 31st March, 1944 amounted to Rs. 1,10,85,11,300 including Rs. 5,45,97,600 in the form of 4 per cent Bonds 1943 tendered for conversion.

Simultaneously with the announcement of the Fourth Defence Loan, a further issue of the 3 per cent Loan 1963-65 (Fourth issue) was also announced, the price being Rs. 95-8-0 for every Rs. 100 nominal. The list was opened on the 3rd July and closed on 10th July, 1943, the total subscriptions amounting to Rs. 15,21,10,400 including Rs. 7,28,02,600 in the form of 4 per cent Bonds tendered for conversion.

In order to assist in the funding of the liabilities connected with the acquisition of the 2½ per cent and 3 per cent undated Sterling Loans, Government announced, early in August 1943, their decision to create *rupee counterparts* of 3½ per cent undated paper up to the maximum value of the two sterling loans repaid, the counterparts being sold by Reserve Bank in accordance with the usual procedure.

On the 16th October, the issue of a new 3 per cent Funding Loan 1966-68 was announced, subscriptions to which were to be received from the 22nd October, 1943. The loan was to be closed when the total subscriptions amounted to approximately Rs. 25 crores. The issue price was fixed at Rs.98 for every Rs.100 nominal. The loan was closed on the 26th October, 1943, the total subscriptions amounting to Rs. 25,11,78,000. In view of the existence of a continued investment demand for long dated loans

on the part of institutional investors and the market generally, a *special issue* of Rs. 50 crores of the 3 per cent Funding Loan 1966-68 was created on the 10th January, 1944.

In order to encourage the public and particularly the small investor to save more, the Government announced on the 15th December, 1943, the issue of Five-Year Interest-Free Price Bonds repayable at par on or after the 15th January, 1949. The Bonds have been on sale since the 15th January, 1944. The entire issue is in the form of bearer Bonds in denominations of Rs. 10 and Rs. 100. Drawings for prices are half-yearly on the 15th July and the 15th January, the amount of price money involving a cost to Government to a rate of interest of about 2 per cent per annum. The subscriptions to these Bonds up to the 31st March, 1944 amounted to Rs. 1,80,55,170.

Apart from subscriptions to the Defence Loans there was a sustained investment of new money, especially by institutional investors, in rupee counterparts and extensions of existing loans issued in connection with repatriation of sterling debt. The aggregate investments during the year under review in these loans amounted to Rs. 78.05 crores as against 48.14 crores in the preceding year.

The total receipts from the various Defence Loans and issues made in this connection with the financing of the repatriation operations during 1943-44 amounted to Rs.341.49 crores and accounted for 57.6 per cent of the aggregate investments at Rs. 592.45 crores since the inception of the Defence Loan programme in 1940.

The 4 per cent Bonds 1943, fell due for redemption on the 31st July, 1943. The total amount outstanding as on the 31st March, 1943 was Rs. 14,97,18,000; of these Bonds of the face value of Rs. 5,45,97,600 and Rs. 7,28,02,600 respectively were converted into the 3 per cent Loan 1953-55 (Fourth Defence Loan) and the fourth issue of the 3 per cent. Loan 1963-65 and the balance was paid off on the 31st July, 1943, the actual amount surrendered for payment during the year under review being Rs. 2,12,39,800.

Government of India Loans, 1944-45

Government have financed the War mainly on a 3 per cent basis, but improvement in the terms of borrowing has been secured through raising the period of maturity of successive fresh issues. Thus there has been a change from a relatively short-dated loan, e.g., the 3 per cent 1946 Bonds issued in 1940 to a longer-dated loan, viz., the 3 per cent 1959-61 Second Victory Loan issued in March 1945. Government's ability to float loans on increasingly favourable terms has contributed to the steadiness of the gilt-edged market and reinforced the po-

licy of cheap money. Great reliance has been placed by the Central Government on borrowing during the last two years, the total rupee loans having risen from Rs.749 crores in 1942-43 to Rs. 1,007 crores in 1943-44 and Rs. 1,212 crores in 1944-45. During the year Defence Loans have been supplemented by the issue of rupee counterparts of repatriated sterling loan; of the sterling loans repatriated between 1937-38 and 1944-45 amounting to Rs. 431 crores, rupee counterparts were issued to the public in respect of Rs. 224 crores or 52 per cent. During the year 1944-45 additional securities made available to the public included issues of two Victory Loans, five-year Interest-Free Price Bonds first issued on the 15th January, 1944 and the $3\frac{1}{2}$ per cent Rupee counterparts, the sale of which was resumed in October 1944. Besides, the National Savings Campaign started in 1943 was actively pursued with the co-operation of the Provincial Governments and resulted in increases in the various forms of small savings.

The 3 per cent Loan 1953-55 (The Fourth Defence Loan) which had been on tap since the 3rd July, 1943, was closed on the 31st March, 1944, when the total subscriptions amounted to Rs. 114.55 crores. As per the Government's announcement of the 25th March, 1944 a new 3 per cent Victory Loan repayable at par on the 1st September, 1957, was issued with effect from the 1st April, 1944. Subscriptions to the loan were to be received in cash without limit, of amount. The issue price for every Rs. 100 nominal was fixed at Rs. 100-2-8. The loan continued until the 17th February, 1945 when it was closed. The total subscriptions to the loan amounted to Rs. 112.82 crores.

In view of the strong demand on the part of the Banks for a short-term investment, the Central Government announced on the 2nd June, 1944 the creation of a special issue of the existing $2\frac{3}{4}$ per cent Loan 1948-52 to the extent of Rs. 50 crores. Similarly, the requirements of institutional investors for a long term investment were met by the creation of a Third issue of the 3 per cent Funding Loan 1966-68 in October to the extent of Rs. 35 crores. Both these issues continued to be available for sale on Government Account by the Bank according to the usual procedure for the sale of counterparts and special issues.

On the closure of the First Victory Loan 1957 on the 17th February, 1945, Government announced on the 13th March, 1945 the issue of the 3 per cent Second Victory Loan redeemable at par between the 15th August, 1959-1961. The list was opened on the 19th March, and the total subscriptions up to the 31st March, 1945 amounted to Rs. 6,14,55,200.

In response to the demand mainly of institutional investors, rupee counterparts of repatriated sterling loans were also sold to the extent of Rs. 14.95 crores. Outstandings (with the Public

and the Bank) of the various counterparts at the end of each year since 1940-41 are shown below:

OUTSTANDINGS OF RUPEE COUNTERPARTS OF REPATRIATED STERLING LOANS*

(In crores of Rupees)

	1940-41	1941-42	1942-43	1943-44	1944-45
3 per cent paper	2.89	3.39	3.97	5.28	5.28
3½ „ „	9.38	17.26	55.73	133.78	148.73
5 „ 1942-47	7.45	0.29	..	..	..
4½ „ 1950-55	18.72	8.08	8.08	6.73	6.74
4½ „ 1958-68	7.27	5.84	5.84	5.85	5.85
4 „ 1948-53	6.36	4.72	5.02	5.02	5.02
3½ „ 1945-59	3.96	12.24	12.32	12.35	12.37
3 „ 1949-52	5.24	7.28	7.48	7.48	7.48
3† „ 1951-54	..	10.95	16.79	16.79	16.79
3‡ „ 1963-65	..	13.05	16.01	16.01	16.01
TOTAL ..	61.27	83.10	131.24	209.29	224.26

The following table shows the total subscriptions to various Defence Loans, different kinds of Postal and other small savings and issues of counterparts made in connection with the financing of the repatriation operations during each of the years 1940-41 to 1944-45. Investments during 1944-45 amounted to Rs. 265.30 crores as against Rs. 341.49 crores in the preceding year and accounted for 30.9 per cent of the aggregate investments at Rs. 857.75 crores during the whole period of the Defence Loan programme. The lower figure for 1944-45 should be regarded in the context of other anti-inflationary measures newly introduced during the year such as the 100 per cent immobilisation of excess profits, "Pay-as-you-earn" income-tax collections and the sales of gold and silver.

* Created against conversion of 4½ per cent Loan 1950-55 for Rs. 15,16,37,400.

† Created against conversion of 4½ per cent Loan 1958-68 for Rs. 13,40,10,200.

‡ Report on Currency and Finance 1944-45.

SUBSCRIPTIONS TO INDIAN DEFENCE LOANS INCLUDING SMALL SAVINGS*

(In Lakhs of Rupees)

	1940-41	1941-42	1942-43	1943-44	1944-45	Total
3 percent Six-Year Defence Bonds ..	..	..	..	..	..	..
(a) First Series	71	..	..	..	..	71
(b) Second Series	44,43	..	..	20,00	..	64,43
3 percent Second Defence Loan 1949-52	3,47	55,69	..	..	..	59,16
Three-Year Interest-Free Bonds ..	2,34	34	32	— 1	—9	2,90
3 percent Loan 1951-54 (Third Defence Loan)	..	..	40,01	14,79	..	54,80
Rupee Counterparts (Net investments)	61,27	21,83	48,14	78,05	14,97	224,26
3 percent Loan 1963-65. (Special Issue)	..	..	15,00	15,21	..	30,21
3 percent Funding Loan (1966-68) ..	..	..	..	75,12	*35,00	110,12
3 percent Loan 1953-55 (Fourth Defence Loan)	..	..	..	110,85	3,73	114,58
Five-Year Interest-Free Prize Bond	..	..	..	1,81	2,34	4,15
3 percent Victory Loan 1957 ..	..	..	..	..	112,82	112,82
3 percent Second Victory Loan 1959-61	..	..	..	..	6,15	6,15
2 3/4 eprcent Loan 1948-52 ..	..	..	..	..	*50,00	50,00
Post Office Cash Certificates	—10,04	—7,97	—4,44	7	1,17	-21,21
Defence Savings Certificates	2,29	2,06	1,21	1 41	—55	6,42
National Savings Certificates ..	..	..	..	8,65	19,38	28,03
Post Office Savings Bank	—18,81	—7,44	15	11,96	16,03	1,89
Post Office Defence Savings Bank	..	11	29	3,58	4,35	8,33
TOTAL ..	85,66	64,62	100'8	341,49	265,30	857,75

* Includes amounts taken up by the Government of India in their Cash Balance Investment Account

† Report on Currency and Finance 1944-45.

No Central Government Loans matured for redemption during the year 1944-45.

Provision for Reduction of Debt:—Since 1934-35 a provision of Rs. 3 crores has been made annually from revenue for reduction of debt. Particulars of the provision are given below :—

	(in lakhs of rupees)
(1) Sinking Fund provision for rupee loans of the Central Government	95.04
(2) Railway Sinking Funds	26.67
(3) A part of the capital portion of railway annuities ..	178.29
TOTAL ..	300.00

Conversion of Government Promissory Notes into Stock Certificates and Subsidiary General Ledger Accounts

A scheme for the conversion of Government promissory notes into stock certificates without charge was announced on

the 20th February, 1942 as a measure of protection to the investing public. The total amounts so converted from 1st March, 1942 when the scheme became effective to the end of the year 1942-43 came to Rs. 182.28 crores including Rs.162.59 crores during 1942-43. Also for reconversion of the stock Certificates into promissory notes, the levy of the usual fee was waived and the total amount reconverted into promissory notes came to Rs. 20.47 crores of which Rs. 19.80 crores were reconverted in 1942-43. The facility of holding securities in Public Debt Offices in the form of a special Ledger Account, known as the Subsidiary General Ledger Account, was extended to institutional holders such as scheduled banks, Provincial Co-operative Banks and insurance companies. The arrangements for payment of interest on holdings in this account are the same as in the case of stock certificates and transfers are allowed from one account to another, within the same Public Debt Office for amounts of Rs. 25,000 and multiples thereof free of charge. The account holder is also entitled to have the whole or part of the balance at the credit of his account reconverted into G.P. notes on payment of the usual fees for renewal of such notes. As a result of these facilities there has been a shift in the relative importance of the different forms in which the total rupee debt is held by the public.

The facility for the conversion of G.P. notes of stock certificates free of charge, continued to be availed of by the investing public, during the years 1943-44 and 1944-45. The amount of such conversions during the year 1943-44 was Rs. 50.23 crores. Reconversions of stock certificates into G.P. notes amounted to Rs. 18.66 crores. Institutional investors also continued to utilise the facility allowed by the Reserve Bank for holding of securities on Subsidiary General Ledger Accounts.

Conversion of promissory notes into stock certificates during 1944-45 amounted to Rs. 44.95 crores compared with Rs. 50.23 crores in 1943-44, the total amount converted since the introduction of the scheme being Rs. 276.33 crores. Reconversions of stock certificates into Promissory notes during the year amounted to Rs. 18.44 crores as against Rs. 18.66 crores in 1943-44 and the aggregate of Rs. 49.76 crores since the 1st March, 1942. The facility allowed by the Bank for holding securities on Subsidiary General Ledger Accounts also continued to be availed of by institutional investors.

The relative importance of the various forms in which the total rupee debt is held by the Public is indicated in the table below :—

PERCENTAGE TO TOTAL RUPEE DEBT

As on		*G. P. Notes*	*Stock Certificates*	*S. G. N. A/C*	*Misc. (i.e. G. P. Notes and Stock held in London)*
31-3-1942	..	53.69	15.40	30.57	0.34
31-3-1943	..	25.60	31.28	42.85	0.27
31-3-1944	..	32.65	28.88	38.27	0.20
31-3-1945	..	37.05	25.95	36.85	0.15

The initial preference shown by many investors after the introduction of the free conversion scheme for holding Government debt in the form of Stock Certificates as against Promissory Notes appears to have worn off during the succeeding years. The percentage of G. P. Notes to total Rupee Debt which stood at 25.60 at the end of 1942-43 has gone up to 37.05 by the end of 1944-45, while that of Stock Certificates has declined from 31.28 to 25.95.

FOOD RATIONING IN INDIA

BY

RABINDRANATH CHATTERJI, M A.

Professor of Economics, Chittagong College

Rationing is an adjunct of the economy of a total war. The belligerent countries of Europe had their first taste of rationing even in the first World War of 1914-18. On the eve of the second World War of 1939-45 the European countries were accordingly fully prepared with full-fledged rationing plans in the preparation of which they could easily fall back upon their earlier experiences. India, unlike other belligerent countries, felt no need for resorting to rationing during the first world conflagration. The memory of this happy earlier escape, however, is one of the factors responsible for India's absolute unpreparedness at the out-break of the second World War. Even the extension of hostilities into the Far East and Japan's spectacular victory march in the first few months of the Pacific War failed to dispel the snug complacency of New Delhi's officialdom which had learned to look at India's War-time food problems with the eyes of 1914-18.

The idea of food-rationing in India first took a concrete shape late in 1942 when the Government of India advised the different Provincial Governments to prepare for the rationing of wheat in the principal urban areas. Early in 1943, however, it was quite apparent that food shortage was not a mere wheat phenomenon but it concerned all the major food-grains in India. Instructions were accordingly issued for the rationing of all the major food-grains. Systematic rationing was first introduced in the City and, later on, in the suburbs of Bombay early in 1943. The success of the Bombay experiment paved the path for the establishment of rationing in various towns and cities throughout India. Greater Calcutta with a population exceeding 4 millions was rationed early in 1944. At the present moment, there is hardly any important town in India where rationing in some form or other is either not functioning or is not actively contemplated. The recommendations of the Food-grains Policy Committee which form the basis of the Government of India's War-time food policy urged the Government to confine food rationing to the principal urban areas only. While the establishment of urban rationing still remains the fundamental policy of the Government, sheer force of circumstances has rendered some modifications of that

policy necessary. Partial rationing of non-producers or inadequate producers in the rural areas has been introduced throughout the Presidency of Bombay. Full rural rationing also prevails throughout the district of Malabar and that experiment is also being carried out in the district of Vizagapatam. The Native States of Travancore and Cochin have also introduced full rationing of the entire population living in their territories.

We have not got any up-to-date statistical information regarding the total number of the rationed population in India. An official statement made early in 1945 by Sir J.P. Srivastava in the Indian Legislative Assembly disclosed that about 50 millions of the Indian population were rationed in some form or other. It is safe to conclude that a few more millions must have been added to the list during the last few months.

Food rationing in India, then, is predominantly an urban phenomenon. But it is not over-all rationing of the continental type. Not all kinds of food but only a few primary foods, mostly cereals, have been rationed in India. There is a surface resemblance between the rationing systems prevailing in India and Great Britain. Both countries have confined rationing only to a few commodities, though the number is fewer in India than in the U.K. In both the countries the individual can supplement at least theoretically, his consumption of the rationed foods by a resort to the non-rationed foods. In both the countries there is a relatively undifferentiated per capita rationing. But the resemblance is only on the surface, as we shall see presently.

Food rationing in Britain affects the entire population, whereas in India it is mainly an urban phenomenon. If we just remember that India is still largely a land of villages, it must be clear that the benefits of rationing in India have been reaped only by a small percentage of our population. If only 50 millions have so far been rationed, it means that $\frac{7}{8}$th of the total Indian population has not been benefited in any way under our rationing system.

The main justification for excluding the rural areas from the rationing scheme seems to be, apart from administrative difficulties and the lack of administrative personnel, the general impression that the rural people are mostly producers themselves and as such they can easily be left to take care of themselves. The Government's procurement policy has clearly laid down that only the 'surplus' food-grains of the producer should be requisitioned, where requisitioning is at all resorted to because of the failure of the 'voluntary' purchase method. Complaints, however, have been voiced to the effect that the actual person, whether an over-zealous petty official or the employee of a trader-agent of the Government, in charge of procurement often exceeds the limits of

his instructions and denudes the ryot of food-grains necessary for his own and his family's consumption. Moreover, not all who live in the vaillges are producers. There are non-producers, inadequate producers, and agricultural labourers in almost every village. Total rationing in both urban and rural areas would have removed all loop-holes for abuse and greatly facilitated the Government's procurement operations. Rationing of the agricultural rural population has been widely resorted to in the Danubian and the Balkan states during the last six years. Having regard to the fact that war-time conditions in India have had a striking resemblance to conditions in S.E. Europe, the best policy for India would have been to ration the entire population on a properly differentiated basis and not to confine the experiment to the more clamorous urban population only.

Food rationing in India is primarily cereal rationing. Rice, wheat, wheat-products and millets which constitute the primary foods of the Indian people are the principal rationed foods. Sugar, salt and mustard oil are practically the only non-cereals which have so far been included in the rationing scheme. Under the British system, however, the main foods of general mass consumption corresponding to the principal food-grains in India, namely, bread, cereals, and potatoes were available outside the ration at prices which were kept deliberately low by a generous policy of Governmental subsidy. The British rationing system mainly concerns the protein foods, meat, meat-products, fats, sugar and jam, liquid milk, cheese etc. The available stocks of these health-giving foods have been distributed more or less equally among the entire population in quantities adequate to meet average physiological requirements and at prices which have been pegged down under the food subsidy plan. This is the basic system. Super-imposed upon this basic scheme there are various special schemes for meeting the special nutritional requirements of different classes of consumers. In the first place, there is the system of communal feeding which has taken the form of industrial canteens for factory workers, of school canteens for children and of British restaurants for the public. Under these schemes which are mainly sponsored by the Government one special well-balanced meal is served to industrial workers, school children and the general public at specially reduced rates. Secondly, for children of pre-school children and for nursing and pregnant mothers there are special schemes for the distribution of protective foods, namely milk, fruit juices and eggs by means of special ration cards. Under the British rationing system, protective foods have been specially reserved for "priority" Groups of consumers. Thirdly, there is a special scheme of distribution of certain foods the supply of which is somewhat erratic, e.g. fish,

tinned meat and beans, by means of a delicately handled 'point rationing scheme'. As a result of all these measures, Britain's war-time food policy succeeded not only in overcoming war-time food difficulties but in improving the nutritional standard of the normal diet of the British people. The average health and physical fitness of Britishers have actually shown remarkable improvement during the last few years and that despite all the difficulties and nervous strain occasioned by the Greatest War in the World's history.

The rationing system in India, though obviously based on the British model, has imbibed very little of the virtues of the original. Under the British system the entire population is rationed. In India only a small fraction of the population has been put on rationing. The British system has kept the main foods of mass consumption outside the ration. In India, it is the primary foods which have mainly been subjected to rationing. In Britain, the prices of all foods, both rationed and non-rationed, have been kept deliberately low under a subsidy plan which has cost the British Government something like £150 millions per annum. In India, even the prices of rationed foods are to-day thrice as high as their pre-war levels, while the prices of non-rationed foods range at levels which exceed their pre-war counterparts by something like 500 to 800 %. Under the British system there are special schemes for catering to the special nutritional requirements of heavy workers, growing children and the general public. In India very little has been done in all these respects. All adults are treated alike. Manual labourers in certain coal mines and plantations have sometimes been allotted supplementary rations, but no attempt has been made to establish a general principle of supplementary rations for all categories of heavy workers. Under the British system special attention has been paid to the nutritional requirements of the vulnerable section of the community, namely children and nursing and expectant mothers. In India, children below two years of age have been allotted no ration at all except in regard to sugar. The only recognition of their special needs has been the equal treatment of children and adults in regard to sugar ration and the grant of sugar ration to those who are not entitled to any ration at all. No attempt has been made to reserve the limited supplies of essential protective foods, particularly milk, for the use of priority groups of consumers specially children and mothers, as it has been done so successfully in England. The only honest attempt in this direction has been done in the city of Bombay where caterers have been prevented from using fresh milk and where children and nursing mothers have been given ration cards under the Bombay Milk Scheme for purchasing half pound of milk per day at a specially subsidised

rate. The Bombay Scheme deserves to be copied elsewhere, even though the ration scale is none too generous.

It must be abundantly clear from the above discussion that food rationing in India is not a very impressive affair, if it is judged by the British or even continental standard. Administrative Authorities in India planned their rationing schemes on the assumption that consumption in India is mainly cereal consumption. This assumption,—it is almost pathetic to note,—is broadly correct so far as the poor masses are concerned, but it is certainly not true of the middle classes, who are the worst victims of the recent Great War and its aftermath, and of the upper classes. So far as the rich people are concerned they have hardly been affected at all by the war-time developments. They could buy whatever they liked and in any quantity, since in India meat, fish, eggs, milk, fresh vegetables, fruits, butter, etc. have been scrupulously excluded from all rationing or control schemes (possibly the only exception being the declaration of two meatless days per week in Bengal when no meat could be sold in the market). Indeed, from the point of view of opportunities for unrestricted consumption, India was perhaps the only Paradise for rich men in the whole world. In Europe the rationing currency largely replaced and considerably diminished the significance of the usual legal tender currency. The European rationing system had a levelling, equalising effect on the consumption of different economic groups within the community. The Indian system betrayed no such socialistic tendencies.

Even if food rationing in India is judged as a piece of cereal rationing, it cannot claim to be a great success. The quality, the scale and the price of the rationed goods, all have provoked widespread complaints. In the initial stages at any rate, what was supplied in the name of rice or wheat contained many foreign ingredients like sand, brick-bits, stones etc. Moreover, the rationing Authorities made no attempt to preserve the identity of different grades of rice. The consumers were given no choice whatsoever and persons accustomed to taking fine-quality rice were compelled to gorge whatever quality happened to be supplied from time to time, from their allotted shops. The situation was particularly distressing for children and semi-invalids whose sensitive stomachs refused to be adjusted to the war quality supplies. It is a matter of relief, however, that the quality of the rationed cereals has been appreciably improved of late and also that in several places (e.g. Bombay and Calcutta) rice is being supplied in different qualities and at widely different prices. This recent orientation of policy has not only given the consumers some freedom of choice as regards the quality of the rationed commodity to be purchased but has also enabled the Government

to supply the inferior quality rice at a reduced price. Unfortunately, however, the quality of the 'inferior' rice is often so very bad that it is almost unfit for human consumption and it is extremely doubtful whether it would have any buyer at all except at a stock-clearing price.

As regards the ration-scale, the official policy of the Government is to establish a uniform ration scale of 1 lb. of food-grains per adult in all rationed areas both in the surplus and the deficit zones. A ration of 1 lb. of food-grains may be adequate for the normal consumer, but it is hardly adequate for the heavy manual worker whether employed in the factories or fields or in domestic services. In the absence of schemes for communal feeding on the lines of the British system, a differentiated unit rationing system on continental lines would have been a much better policy for India to adopt. So much about the policy regarding the ration scale. If we look to actual performance, the picture becomes much more gloomy. The actual ration scale has depended upon the supply position and has varied widely from place to place and from time to time. The following extracts from a statement submitted by Mr. B.R.Sen I.C.S. in the Council of State on Nov. 20, 1944, will give some idea regarding the discrepancy in the ration scale in different rationed areas :—

WEEKLY RATION

Provinces	*Important Town*	*Rice maximum allowed*	*Wheat*	*Sugar*
BENGAL	1. Calcutta	5 lbs.	7 lbs.	12 oz.
	2. Chittagong	4 lbs.	3 lbs.	4 oz.
ASSAM ..	1. Shillong.	6 lbs.	2 lbs.	varies from 8 oz. to 1 lb.
BIHAR ..	1. Patna	6 lbs. rice or wheat.	..	10 oz.
ORISSA ..	1. Cuttack	5¼ lbs.	2 lbs.	10½ oz.
PUNJAB ..	1. Lahore	..	7 lbs.	9 oz.
SIND ..	1. Karachi	8 lbs. rice or wheat.	..	8 oz.
U. P. ..	39 Regulated towns.	Western District 3.8 lbs. Eastern Districts 5.4 lbs.	5.4 lbs.	..
N. W. F. P.	Peshawar	Total 8 lbs.	..	8 oz.
C. P. & BERAR	Nagpur	7 lbs. rice and wheat.		
MADRAS ..	1. Madras City	7.7 lbs. rice and wheat.	..	..
	2. Malabar District	4.55 lbs.	.91 lbs.	..
BOMBAY ..	1. Bombay City	3.4 lbs.	4.14 lbs.	12 oz.
	2. Poona	1.5 lbs.	4.10 lbs.	10 oz.
DELHI ..	New Delhi	4.0 lbs.	7.14 lbs.	10 oz.

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It may, however, be pointed out in this connection that the discrepancy in the ration scale has been appreciably lessened during the last few months. Since sufficient supplies of rice were not available for making the 1 lb. ration effective, several interesting attempts have been made to popularise wheat in Madras and other southern areas. Wheat has been sold at a subsidised rate, cooking demonstrations have been arranged both in Madras and in the Native States of Cochin and Travancore in order to teach the common people easy methods of preparing wheat dishes and so on. The authorities hope that if they succeed in accustoming the public to new diet habits, they will not only reach their goal of establishing a uniform ration scale of 1 lb. of food-grains per adult but also give the people a diet much more balanced than their pre-war normal diet.

So much, then, about the food-grains ration. The position as regards sugar ration is still more disquieting Unlike food-grains, sugar is not produced in every village. But no attempt has been made to establish a system of sugar rationing in the rural areas. People in the country-side and other non-rationed areas have to depend on the mercy of the various food committees for getting their sugar quota. In the first place, the quantity of sugar placed at the disposal of these committees has been as a rule extremely inadequate. Secondly, in the absence of a system of individual rationing, influential persons have almost invariably managed to secure a lion's share of the meagre area-quota.

If the ration-scale is none too generous, one might expect that the off-take percentage would be very high in India, particularly in view of the fact that rationing in India is confined to the main articles of general mass consumption. But here, too, the results are quite disquieting. The All-India statistics of off-take gathered from data collected up to August '44 are as follows : 60% off-take of the cereal ration, 64% of rice, and 80% of sugar. Commenting on the relatively low percentage of the off-take of rationed foods in India compared to the very high percentage in the U.K. Sir Henry French, the British Food expert who visited India at the invitation of the Food Department, Government of India, suggested that one probable explanation might be that food rationing in India was confined only to a very limited number of commodities with option to consumers to supplement their rations by resorting to other non-rationed food-stuffs while in the U.K., where rationing is much more comprehensive, consumers have very little opportunity for taking supplementary foods. The above 'possible' explanation, however, does not appear to be very convincing if we just remember certain highly relevant factors which apparently did not enter into Sir Henry's chain of reasoning. In the first place, the primary foods of general

mass consumption which have been rationed in India do not figure in the British scheme. Secondly, the British people might well afford to take less of the rationed foods in view of their opportunities for taking meals in communal canteens. In India the prices of non-rationed foods have ruled so very high that it is hardly credible that the ordinary man whose normal diet consists, as the Government spokesmen themselves have admitted, mostly of cereals, has been able to consume them in any appreciable quantity. The true explanation in our opinion may be found in the fact that whereas food prices in Britain rose by only 18% during the war, in India even the prices of rationed foods rose by something like 300%. It is, of course, true that the total money-incomes of the Indian people have also risen enormously during the war, but that increased income has been most unevenly distributed among different sections of the people. People with relatively fixed incomes, including the low-paid Government servants who have been given a maximum dearness allowance of $17\frac{1}{2}$ % only have had to face the greatest difficulty in making both ends meet. It is no wonder then that the 'off-take' percentage has been so low in India. If the Rationing Authorities in India followed a policy of general subsidy at least in the matter of selling rationed goods to persons belonging to the lower income-brackets, the results might have been quite different. Unfortunately, considerations of financial difficulties, which were thrown aside in conducting the war, apparently weighed heavily in the scale when the problem of subsidised ration cropped up. The shining example of Britain was never looked up to. Instead, the Government relied upon such measures as the Price Advisory Committee might suggest for building up price control on a provincial and a regional basis and for lessening up the gap in the price-levels of food-grains between different markets in India. These price-control measures have no doubt succeeded in bringing down the prices of food-grains from the giddy heights reached in 1943, but there are clear limits to price reductions which are permissible under present general inflationary conditions. The only course left to the Government is to buy food-grains from the ryot at reasonable prices and to sell them at a loss to the ordinary consumers at prices corresponding to the pre-war level of incomes. In Europe expenditure for maintaining the health and morale of the civilian population was given the same degree of priority as military expenditure. There is no reason why a different standard should have been applied to India. Much of the defect of the Indian rationing system may be traced not only to the lack of initial preparedness but also to the vastness and high complexity of the problem of rationing a huge population, scattered over wide areas, with highly diversi-

fied food habits. Another obstacle in the way of introducing a scientific form of rationing has been the lack of a properly developed food technology in India. Perishable foods like milk, vegetables, fish, eggs, etc. must be properly preserved before they can be included in a general rationing scheme. The agricultural industrial and administrative backwardness of India have thus left their indelible marks on the character of our rationing system. The supreme lesson of our rationing experiment is that India must march shoulder to shoulder with the industrially and politically advanced countries of the West, if she is to survive another period of stress and strain in future. India must produce more foods of the right type and must learn how to store and preserve them, if famine and mal-nutrition are to become things of the past.

India's experience of rationing has not been very gratifying. That is why many in India are looking forward to the day when rationing may be abolished. While the general public dissatisfaction with the existing rationing system is quite natural, it should not be forgotten that the major motive behind the introduction of food rationing in India was to mitigate famine conditions which had already cost hundreds of thousands of innocent lives in Bengal and elsewhere. Viewed as a policy of famine insurance food rationing in India has certainly been a qualified success. The only pity is that it was not introduced somewhat earlier. That would have saved millions of precious human lives. But the limited objectives of war-time food rationing in India by no means exhaust all the potentialities of a properly articulated rationing system. The technique of rationing may have a vast scope in India even in normal peace times for giving the people a nutritive and well-balanced diet. A Full Employment policy depends, *inter alia* upon a high value of the Marginal Propensity to consume. In a poor country like India, the general consumption standard can be raised only if the state comes forward to subsidise private consumption. Some variant of the rationing technique may well be employed in pursuit of what is known as the Dual consumption policy. The necessity for cereal rationing may be over in the near future as soon as Burma rice becomes generally available for Indian consumption, but it would be a tragedy if the entire machinery of rationing administration, so laboriously built up during the last few years, is thrown into the scrap heap. The socialistic and creative aspect of rationing of which India got no foretaste so far fully deserves to be explored in any long-term plan for feeding India's semi-starved millions.

THE NEW INDUSTRIAL POLICY OF THE GOVERNMENT OF INDIA

BY

D. R. SAMANT

University of Bombay

The Government of India in April last issued a Press communique containing provisional outline of the industrial policy that they propose to follow. Our Government's attitude towards industrial development of the country has so far, as they have admitted, been one of laissez faire with "some modification after the last war through the adoption of the policy of discriminating protection." But this time-honoured policy, it seems, is now nearing its end.

"The Government of India" according to the communique, "consider that the continuance of their existing policy, in the conditions in which India will find herself after this war, will not meet the objectives of sound post-war development." They have, therefore, "decided to take positive steps to encourage and promote the rapid industrialisation of the country to the fullest extent possible." The present communique, which outlines the new industrial policy that Government propose to follow, thus constitutes an important landmark in the economic history of this country.

The different objectives that the Government of India have placed before them in working up the new industrial policy may be summed up as follows:

(1) Rapid industrialisation of the country;

(2) Balanced regional distribution of the industries;

(3) Balanced progress of the economy as a whole; and lastly

(4) Equitable distribution of the national dividend.

Rapid Industrialisation of the Country

In order to expedite the industrial development of the country, Government is prepared to take the following steps:

(1) Nationalisation of basic industries of national importance;

(2) Supplementing private enterprise by the State enterprise wherever expansion is needed;

(3) Supply of finance to private enterprise by way of loans or subscription to share capital;

(4) Guaranteeing a minimum dividend on capital or undertaking to meet revenue losses for a fixed number of years. Besides active financial assistance, Government propose to assist industries by facilitating research work, standardising production, procuring capital goods, making services of experts available, and so on.

Let us try to estimate the possible effects of these measures from the point of view of quick attainment of the objective, viz., "the rapid industrialisation of the country to the fullest extent possible."

In the first place we must remember that the economic policy is determined not by the objectives alone but also by the framework of the economic institutions within which we mean to strive for the attainment of the objectives. For instance, the same economic objective will require different economic policies under different sets of economic institutions. So it must be remembered that our economic policy must be such as will enable us "to increase national wealth by the maximum exploitation of the country's resources," under the system of private enterprise and free exchange, though not entirely uncontrolled.

If under these institutions the standard of living of the masses is to be effectively raised, as is desired by Government, that will happen only if the purchasing power of the masses is effectively increased. The desired increase in consumption will be possible, in so far as things are not going to be doled out, only if the consumers are able to buy more. The consumers will be able to buy more and more with a given money income only if prices go on continuously falling as the supply increases, or, with a given price level, if the money income increases. Private enterprise will not function under falling prices. Under the system of private enterprise production will take place only if a profitable price level is assured. So the first essential condition for the expansion of production is the expansion of effective demand. Mere expansion of instruments of production will not automatically result in expansion of consumption; otherwise there would not have been the phenomenon of unused capacity. The policy meant for economic development must, therefore, result in the expansion of the means of production as well as the demand for the production. Let us now see how far the proposed measures will result in increasing the means of production as well as increasing demand for absorbing the possible increase in production. Because, though any increase in demand without possibilities of increasing production will lead to inflation, an increase

in the means of production without a corresponding increase in demand will mean waste of resources.

First of all Government propose to nationalise certain basic industries of national importance, "provided adequate private capital is not forthcoming." If private capital is not forthcoming because of lack of foresight or knowledge or enterprise, nationalisation will go a great length in expediting industrialisation. But if private capital is not forthcoming because of genuine deficiencies of the existing economic conditions, then mere nationalisation of the industries is not going to improve the situation much. The lack of investments on private account may be due to the real difficulty arising out of lack of demand. And in that case the proposed investments will not have the desired effect upon the national income unless they result in increasing the aggregate demand. So what matters is not who makes these investments but how they are made. If these investments are brought about by following a policy which has restrictive effect upon investments in other directions, then they will have no expansionist effect upon the economy as a whole. Supposing these investments are in basic industries, as they are proposed to be, the means of production of consumption goods produced by these industries will have no demand unless the demand for consumption goods increases, which in its turn depends upon the total money income of the community. So, if the investments do not result in increasing the total money income of the community then they will continue to be uneconomic propositions. In so far as these investments are financed by Government the tax-payers will have to make good the losses.

Another type of industries to be nationalised are those in the case of which "the tax element is much more predominating than the profit element." In the first place, there is nothing inherent in an industry which can justify its classification as having tax element much more predominating than profit element. Which particular industry should be used as a means of collecting taxes depends upon the economic conditions and economic policy. There are no *prima facie* reasons why salt manufacture and not motor manufacture should be taken as possessing tax element more predominatingly than profit element. Ordinarily such commodities are selected as means of collecting taxes which have a wide demand but form a small proportion of family budgets. The match industry is a very good illustration of this; it deserves first priority in the list of nationalisation from this standpoint. Next to that may be taken the tobacco manufacture. But all this because we have accepted certain principles of taxation.

Secondly, such nationalisation for the purpose of raising revenue has no significance from the point of view of industrial

expansion. If revenue requirements result in raising the prices of these commodities above the competitive level, the nationalisation policy will have restrictive effects not only on demand for those particular commodities but even on total demand. The economic effects of such nationalisation will be distributive and not expansionist.

Besides complete nationalisation of particular industries, it is proposed that, "Certain industries of national importance such as shipbuilding and the manufacture of locomotives and boilers will be run by the State as well as by private capitalists." What this means, perhaps, is, that in these industries there will be some units owned by private enterprise and some units owned by the State. If in the case of such industries the State is the first to step in, there is no reason why private enterprise, which is less desirable from social point of view, should later on be allowed to enter. But if the State wants to enter the field for supplementing private enterprise, then certain important economic questions will arise. If the State participation is meant to break down monopolistic policies of private producers the effects will be desirable. But supposing the State participation is undertaken only because those industries are considered to be 'of national importance' and therefore deserving expansion, then complicated economic issues will arise. The expansion of production resulting from such participation will bring down prices to uneconomic level if they were not previously higher than the competitive level. If the prices thus come down to uneconomic levels, private production will be contracted resulting in waste of resources. If a reasonable rate of profits is allowed to private capitalists, the State investments will mean an additional burden on tax-payers. The financial burden of these investments will disappear only if the demand for the products of these industries increases, which will depend upon the general economic progress of the country. But economic progress will not follow merely from the State ownership of industrial undertakings.

Government propose to assist industrial progress also "by making loans or by subscribing a share of the capital in industrial undertakings which are considered to be of importance to the country's development, but for which adequate private capital may not be forthcoming." Here again Government will have to forego any returns on their investments in order to make reasonable returns available on private capital. For, if adequate returns on total investments were possible, private capital would have come forward of its own accord. So until general demand increases, which is not going to be the automatic outcome of these investments, such financial assistance will mean additional burden on tax-payers. The same will be the effect of "guaranteeing a mini-

mum dividend on capital or undertaking to meet revenue losses."

The Essentials of Industrial Expansion

The fact is that Government investments in themselves are not going to be of any material help in expediting economic development, which signifies rise in the standard of living. Government investments can have expansionist effect only when they happen to be in addition to private investments. But there will be no expansionist effect of Government investments if they are in place of private investments. Not only that, but if these investments result in creating additional burdens on the public fisc, they will have adverse effects on the economy of the country. From the point of view of the size of the economy the increase in taxation necessitated by the increased financial obligations will have contractionist effects upon consumption and consequently upon the economy as a whole.

In short what this means is that mere Government participation in industrial enterprise will not lead to the attainment of the "fundamental objective of industrial development that it should enable the general standard of living to be raised." What is important for the attainment of this objective is the financial policy at the back of these investments. Because if these investments come by way of addition to the investments on private account then only they will result in increasing the total employment and income—the money income as well as the real income—of the community. The financial policy thus is the deciding factor in an expanding economy.

The financial policy that the Government of India propose to follow for the intended economic development of the country is outlined in the Second Report on Reconstruction Planning. On p. 15 of the Report we are assured that "the Central Government will explore every possible measure for raising money either by additional taxation or borrowing with a view to financing schemes sponsored by themselves or for assisting schemes sponsored by the Provincial Government." The same financial policy is reiterated in the present communique on industrial policy. In the section dealing with controls in general, Government say that it will be necessary to impose control over capital issues, to secure sufficient supply of capital resources "from the country's savings" for the proposed investment policy. In short, the proposed financial policy signifies that the Government investments are going to be in place of private investments. Such public investments, whatever their size, cannot have any expansionist effects upon the economy. It is not perhaps as yet realized by Government of India that the economy cannot expand so long as investments are undertaken out of current money income se-

cured by taxes or loans. This may only help to maintain the economy at the particular level; because such investments cannot result in increasing the total demand. Not only that but the heavy borrowing policy of Government may have an adverse effect on private investments. For instance, if Government borrowing results in raising the rate of interest it will increase the cost of production, worsen the competitive position of Indian manufacturers and consequently discourage private investments. So Government's industrial policy, considered in connection with their financial policy, does not promise any prospects of rapid industrialisation. It may result in enlarging the capital equipment in the country but that does not mean that a higher standard of living will necessarily be available to the people.

Well-Balanced Growth of Industries

The development of industries is to be brought about in such a way that there will not be overdevelopment of one particular region or overdevelopment of one particular industry. "In an unregulated industrial economy," says the communique, there is likely to be a tendency for capitalists to go in for schemes which promise quick returns. This will lead to up-sided development —a scramble for some industries, with the danger of overproduction and excessive competition and inadequate attention to other industries which are equally necessary in the national interest." It is intended, therefore, "to fix targets, to allocate them on a regional basis, and to see that these targets are achieved." How exactly this is going to be put into practice is not clear. Perhaps, first of all targets for individual industries will be fixed on national scale, and then the total production aimed at will be allocated to different regions, and expansion of any industry will not be allowed until the targets for other industries have been attained. Here naturally a question arises whether the non-fulfilment by any backward region of the allocations is going to hold up any further progress of that industry. This will result in industrial progress being determined by the most backward region. Though decentralisation is desirable it will be wrong to plan it so rigidly in the very beginning.

In addition to a balanced regional distribution of industries, it is intended to promote a balanced growth of different industries. It is complained that capitalists go in for schemes which promise quick returns with the result that while some industries suffer from overproduction others suffer from inadequate attention. To avoid such a situation it is proposed not to allow any industry to grow beyond a fixed size. The underlying idea being that the money that was going to be invested in this particular industry would then flow to other industries where expansion is

considered desirable. But it is wrong to suppose that because people are stopped from investing in one particular industry they will automatically turn to investing in other industries. Government might stop people from investing in a particular industry but they cannot make them invest elsewhere if they think it risky to do so. Investments in other industries will take place only if the prospects in those industries improve. So diversion of investments cannot be brought about only by stopping investments in some lines. The immediate effect of such restrictions will be to stop investments. This far from expanding the economy will definitely contract it. Really speaking under conditions of unemployment it does not matter if there is over-investment in any industry. It may mean loss to individual investors but it is a gain for the society as a whole. Under conditions of unemployment wrong investment is better than no investment. The proper remedy for over-investment in one industry under such conditions is more investment in other industries merely to avoid over-investment by restrictive measures will lead to restrictive effects on the economy as a whole.

Balanced Progress of the Economy

Not only a balanced progress of different industries but a balanced progress of the economy as a whole is also aimed at by Government. They, therefore, intend to exercise control over private investments "to secure balanced investment in industry, agriculture and the social services," because otherwise it is feared, "capital may flow excessively in one direction and lead to topsided development." What this means is, that investments in the neglected sectors will be undertaken by restricting investments in the sectors favoured by the public. Obviously enough this policy will result in changing the nature of the investments but not the size of them. Such a policy of undertaking investments in a particular sector at the cost of investments in some other sector is advisable only in the case of an economy that has reached full employment. But in the case of a country like ours where, as is admitted even by Government, "there are considerable unused resources of manpower and material," that policy is entirely misplaced. Where the economy is suffering from idle resources and the aim of the economic policy is "their fullest and most effective utilisation", the proper thing to do is to increase investments in all directions. The balance is to be aimed at by catching up the faster moving sector and not by stopping its progress. While the former is a progressive policy the latter is a stationary one.

Distribution of National Dividend

Lastly the Government communique contains some proposals intended to bring about equitable distribution of national dividend. "It is axiomatic in Government policy," says the communique, "that the additional wealth created by industrial development should be distributed in a manner that may be regarded as socially equitable." With this idea it is proposed to take steps : (1) "To secure for industrial workers a fair wage, decent conditions of work and living and a reasonable security of tenure"; (2) "To prevent excessive profits to private capital"; (3) "To ensure that unhealthy concentration of assets in the hands of a few persons or of a special community would be avoided."

The last of the above proposals is a novel feature of the present communique which otherwise abounds with orthodox ideas. The intended prevention of "unhealthy concentration of assets in the hands of a few persons or of a special community" is to be achieved by "a judicious exercise of controls, such as capital issues control and the licensing machinery for the regionalisation of industry." How personal and communal spread of assets is going to be achieved by the above mentioned controls is difficult to understand. So the Government propose to stop a particular individual from investing in industries after his total investments reach a particular figure ? Even supposing the investments in the name of a particular individual are successfully restricted will that definitely mean restriction of that individual's control too ? Still more perplexing is the problem of how the concentration of assets in the hands of a particular community is going to be avoided ? Do the Government believe that this can be attained by refusing licences in those regions which are inhabited mostly by the culprit community ? Or do they propose to fix investment targets and allocate them on communal basis ? So that the total investments of a particular richer community should not be allowed to exceed a particular figure until the target fixed for the poorest community is reached. And what is to happen to the surplus resources in the hands of any individual or community ? Are they to remain idle, which is not the way of expansion ? If Government is serious about avoiding concentration of wealth the only decent way to do it is straightforward expropriation. To allow money to flow in the hands of some and then to immobilise it there will have definite contractionist effects. This will not serve anybody.

The Possible Effects of the Proposed Industrial Policy

The economic policy, as explained above, does not promise any high prospects of rapid expansion of the national dividend

nor does it promise a very equitable distribution of it. The policy may result in increasing the means of production in the country. But the mere existence of the means of production will not result in increasing production. The expansion of production will depend upon the financial policy of the Central Government. Under the proposed orthodox financial ideas there is very little hope of economic expansion. The proposed financial policy will have expansionist effect only if the internal deficiency of demand can be compensated by foreign demand, which is almost impossible in the case of India.

The situation will be still worse in so far as the industrial policy will result in creating foreign obligations. Internal loans result in creating transfer of purchasing power within the country itself, but foreign loans will necessitate curtailing consumption by the country as a whole. Consumption will have to be kept below production by amounts equal to foreign payments. It may be pointed out here that this is going to be so long as we have to borrow from outside. That no doubt is true. But if foreign borrowings result in increasing the total production by more than the foreign payments to be made, then the excess will be the net gain derived by the country. But in so far as the financial policy of the Government of India does not promise an expansion of production, foreign payments may mean a net loss.

Even the distribution of income is bound to be affected adversely by the proposed industrial policy as a whole. It must have been clear from the earlier discussion that the new policy will result in creating heavy fixed charges on the public fisc. No doubt these charges will be created as a result of the expansion of productive assets. But these assets, as we have already pointed out, will not result in increasing income either for the State or for the people; and, so long as they do not yield any revenue, the tax-payers will have to meet the liabilities incurred on their account. Most of these liabilities will be for creating capital assets which did not offer any attractive prospects to private capitalists under the existing economic conditions. Naturally their income-yielding capacity will depend upon the general development of the economy, i.e., upon the expansion of consumption capacity of the people. This consumption capacity being determined by the total outlay, which is not going to expand under the proposed investment policy, will remain the same even after the creation of the new capital assets. The fixed liabilities created under the new industrial policy will, therefore, remain a burden on the tax-payers until the total effective demand increases. Till then the common tax-payers will have to pay interest to the rich financiers.

This will naturally increase the inequality of incomes. Be-

sides owing to heavy demands on account of industrial liabilities, Government will be obliged to restrict expenditure on social services. The regressiveness of the tax system, which depends upon how the tax revenue is raised and how it is spent as well as the general economic inequality will thus be raised still further.

Higher taxes and higher rate of interest, which in all probability will be the outcome of the proposed industrial policy, in addition to the increased impediments in the way of private investments, will result in discouraging private enterprise. This apart from having contractionist effects on the economy, will result in creating favourable conditions for the import of foreign goods. For all the factors taken together will result in increasing the relative costs for Indian manufacturers, *vis-a-vis*, their foreign competitors.

NOTES AND MEMORANDA

WHAT FARMERS EAT IN OUDH

Man's dietetical habits were in the past largely governed by regional food supply. With the introduction of mechanical transport which made the carrying of bulky food stuffs from distant places comparatively cheap and easy, food materials produced in remote lands now add to his food supply. Wheat produced in Australia, and rice grown in Burma[1] are transported to many of the Indian provinces where they are consumed not only by the urban but also by the rural population. But region still greatly determines what a man shall eat and this is more true in the case of India's poverty-stricken agricultural population, than in any other instance. The following study made by the writer of foods consumed by the rural population of a village[2] in Gonda district in Oudh, in close relation with regional food supply reveals how the peasant farmer generally eats what his holding can produce and how the farm products react favourably or adversely his nutritive requirements.

A number of cases were examined and it was found that the diets did not remain constant throughout the year, but they changed with harvests of individual crops and seasonal supply of food stuffs like Mahuwa[3] or mango. The statement below gives typical diets of an average working adult as they change from season to season.

October to November:

Parched corn (Macca) ..	2 Chataks.	Taken as breakfast.
Rice, Sawan, Mandua or Kodon	12 Chataks	Furnish provisions for morning and afternoon meals.
Dal (Arhar, gram, masur or peas)	4 Chataks	

December to 15th February:

Parched corn	2 Chataks	Taken as breakfast.
Rice, Mandua, Kakun or Kodon.	16 Chataks	Furnish provisions for morning and afternoon meals.
Sak Bhaji.		

[1] The war has cut off the import of rice from Burma to this country.
[2] Shitalganj.
[3] Mahuwa flower.

15th February to March:

Green peas	12 Chataks	Taken as breakfast serve also as morning meal.
Rice, Kodon etc. Sak Bhaji	6 Chataks	Furnish provisions for afternoon meal.

March to August:

Parched gram, peas or Mahuwa flower ..	2 Chataks	Taken as breakfast.
Wheat or barley	12 Chataks	Furnish provisions for morning and afternoon meals.
Dal (gram, peas or arhar)	4 Chataks	

September:

Baked corn	8 Chataks	Taken as breakfast serves also as morning meal.
Sawan, gram, peas or barley	8 Chataks	Furnish provisions for afternoon meal.

Diets given in the statement above are more or less arbitrary and represent only typical forms of an average adult's diet. Differences in economic status, caste habits, and professions asso--ciated with it, go largely to determine the comparative richness or otherwise of foods consumed. A rich farmer for instance can afford to eat wheat bread in the off season of December while his poor neighbour will have no wheat left with him by that time and will have to remain content with Kodon and Sak Bhaji, which is inferior to wheat. Similarly Ahirs who are professional cowherds can manage to consume milk and milk-products because they keep milk animals. Oil-man on the other hand can afford to use more oil because he presses the oil-seeds of the locality while the Chamar pig's flesh and fat because he rears pigs. It is always easier to eat stuffs produced at home even though costly than to buy it even when cheap.

There are two harvest periods in the year, one from September 1 to October 15 for Kharif crops and the other from February 15 to March 30 for Rabi crops. After the harvest is over a period of plenty sets in and even the poorest family is sufficiently provided with food. With the passing along of days and months gradually and gradually the stock of food is exhausted setting in a period of scarcity. The months of Sawan (August) and Magh (January) represent the worst part of the year when many keep on inadequate diet which is insufficient in caloric value even to meet the basic metabolic requirements. Malnourishment results in enervating the body, loss of weight and producing pathological conditions. It is indeed difficult to measure accurately the extent of starvation—there being differences in individual cases

—but the majority suffers though with different degrees of severity cannot be denied. The family that can manage throughout the year and does not suffer is thought to be well-to-do, and that depends upon the size of the holding in relation to the size of the family, efficient farming, favourable season, subsidiary occupations and prudential family habits.

Sawan is the first crop of the year and its harvesting period begins from the last week of August when farmers are suffering from acute food shortage; hence it is so welcome. Next comes maize followed by kodon, rice and others. The cobs of maize when green is baked and eaten by the people; when ripe bread is made out of it, and in parched state it is commonly used as breakfast. Rice is the staple crop of the locality occupying 38.5 per cent of the total cultivated area in a normal year, the figure for maize being 12.6.

From October till next harvest people mostly depend upon rice, maize, kodon, sawan, mandua and arhar. The sowing operations for rabi come to an end by the last week of November and the surplus seeds of wheat, gram etc. are eaten by the people. From the beginning of December sak-bhaji begins to replace dal. It is a vegetable preparation made out of the top cuttings of young gram plants and mustard and rai plants, pulled out in the 'process of thinning. Apart from supplying calories it is rich in iron content and supplies caroten which is later on converted into vitamin A in human body. Cane also begins to be chewed from December. Formerly cane used to be crushed in iron kolhus worked by bullocks and gur used to be made out of it. With the opening of sugar mills it is sold to the factories and gur is made only of Desi canes which is not accepted by the factories on account of its low sucrose content. Coimbatore occupies 12.6 per cent of the total cultivated area while Desi cane forms only .2 per cent. The result has been that the consumption of gur has considerably diminished. People do not eat refined sugar because it is dearer and has to be purchased.

By February green peas are ready and they are eaten in raw as well as boiled condition. Pea is the first rabi crop that falls after the scarcity period of December and January. With March coming to an end harvesting of rabi crops is completed. Wheat, barley, and gram, peas and masur occupy respectively 28.5, 8.5, and 34.1 per cent of the total cultivated area in an average year. Mahuwa and mango are seasonal crops the season for the former being April while the latter extends from second week of June to the second week of August. Former is more important than the latter and its yield (flower) considerably adds to the food supply of the farmer. Both greatly fluctuate from season to season in their yields.

From April to August when sawan is reaped diets are mainly composed of rabi grains and Mahuwa. Surplus rice seed is consumed after it has been sown in the beginning of rains. Mustard and rai are sown as rabi crops and provide oil throughout the year. Among vegetables potatoes are very important and are ready in March. Other vegetables are pumpkin, bottle-gourd, onions, beans, leafy vegetables and others. Among fruits mango, guava, jack-fruit, jamun, lemon, banana, melons, Indian-jujube, custard-apple etc. are common. Some of them can be had without spending anything but others have to be purchased. Leaving aside Ahirs who are professional cow-herds milch cows and buffaloes are kept only by few well-to-do cultivators. Majority of the farmers therefore get no milk.

It is to be remembered that the farmer suffers from a number of liabilities. He has to pay rent to the landlord and at least a portion of his debt to his creditor after each harvest. He has further to buy clothes and meet other family expenses incurred for instance in a marriage or a funeral ceremony. When his bullock dies he has to buy another only by spending a lump sum. Thus he constantly stands in need of money which he can get either by selling his food grains or cash-crops or from some outside source like the money-lender, the income from a subsidiary occupation, or wages. Sugar cane which is the only cash-crop of the locality saves the cultivator from selling his food grains but when forced to do so he always sells that which fetches the highest price. It results in his parting with his superior food grains like wheat and rice leaving only inferior grains like kodon, maize, barley and others with him. He does so in order to save the bulky though inferior food grains, which can enable him and his family to pull on for longer days and months. This also explains why the poor farmer eats inferior food grains in preference to superior ones which he himself produces, fluctuations in prices of food grains greatly affect him in this respect. In the slump that followed the last war nothing but a reduction in rent could save him.

Examined nutritively it can be asked how far the food consumed by the farmer meet his nutritional requirements? Does the daily intake of food meet his caloric needs? Is the percentage composition of protein, carbo-hydrates, and fat in the food sufficient to meet the minimum need of each nutrient? Do all the necessary vitamins occur in his food in sufficient quantities to keep him in a state of health? We shall try to answer these questions in the light of the effects of deficiencies that are the result of malnourishment.

Just as petrol is needed to supply the energy for running a motor car, food is needed to supply this maintenance-energy or heat of the animals and energy needed for various forms of acti-

vity which is measured in terms of calories in physiology and nutrition. When an animal is starved it uses up most of its carbohydrates and fat and burns up its stored protein last and least. We have seen how the farmer suffers from a less caloric-intake in the scarcity periods of Srawan and Magh, which is evidenced all round in reduction in body weight, enervation and disease. Fortunately during these months agricultural operations are mostly easy and do not make a heavy demand on his energy. After the harvest however they wonderfully recoup in health and vigour. Well-to-do cultivators on the other hand who can maintain all the year round do not suffer. Carbohydrates are chiefly needed for producing heat in animal body and when the farmer is sufficiently provided with food he gets all the carbohydrates that he needs.

Fats when burnt in the body provide more than twice the amount of energy obtained by burning proteins and carbohydrates. Apart from supplying calories, it serves human nutrition in other ways. Fat soluble vitamins A and D are found in animal fats which are essential to health. There is some evidence that caroten which is the precursor of vitamin and is found in vegetables, is absorbed with difficulty when the fat is excluded from the diet; fat is probably needed also to assist the absorption of the precursors of vitamin D that can be changed into vitamin D by ultraviolet light. Many of the food grains that the farmer eats contain small percentages of fat but the main source is always the mustard and the rai oil. Thus his fat supply from animal origin is practically nil. Even those who keep cows and prepare ghee out of the milk do not use it themselves but generally sell it. Thus it will be seen that he has largely to depend upon caroten contained in vegetables and sag bhaji for his supply of vitamin A, and the ultraviolet light of the sun for his supply of vitamin D.

Proteins are very complicated substances. Each protein is made of a series of simpler units called amino-acids. There are twenty-three different kinds of amino-acids known to occur in proteins. Protein is the most permanent and essential constituent of animal bodies and their food. It is needed in different quantities for the growing child, the pregnant and nursing mother and the grownup adult. It is used up in the case of the former two in the formation of new tissues while in the case of grownups it is probably needed for the continual interchange of whole amino-acids or NH_2 groups between the protein molecules of the food and those of the body[1].

Proteins are split up into amino-acids in the intestine and it is these amino-acids that are absorbed and used. But as the pro-

[1] Marrack J. R., *Food and Planning.*

portions of the amino-acids differ in different proteins their value as food to an animal depends on the relation of the amino-acids they contain to those that animal required. The proteins of vegetable seeds contain less of the three indispensable amino-acids lysins, arginine, and histidine then do the animal proteins; hence the latter are called first class proteins and said to have higher biological value.

The farmer gets almost all his protein supply from vegetable source. Legumes such as arhar, gram, and peas are rich in protein while wheat, rice etc. do not only contain carbohydrates as their chief constituent but also supply small amounts of protein. As has already been observed Ahirs who generally keep cows and use skimmed milk possess better health and girth and are more sturdy. Though comparatively poor they suffer less from the effects of the scarcity periods. The new-born infant in majority of cases is kept solely on the mother's milk without any additional supply of cow's milk and therefore is forced to eat vegetable seeds at a very early age, which seriously affects his proper nourishment. The growing child needs proteins that supply amino-acids in proportion similar to that in a normal grown adult which vegetable seeds deplorably lack; hence the milk is so indispensable for the nourishment of the child. Similarly the formation of new tissues in a state of pregnancy or while nursing introduces a new demand on the food supply of the mother and she needs to be provided with milk if she is to be kept in a state of health. It is nothing but sad to find in our countryside, our women-folk denied of proper nourishment at a time when they so badly need it. The result is that they are unable to bear the strain of child birth and in many instances come out as wrecks.

Vitamins are substances that occur in foods in minute quantities and until their chemical nature is known, they can be recognised only by the diseases that occur when they are absent from the food. They are known as fat soluble vitamins A.D.E.K., and water soluble vitamin B complex and vitamins P and C. We have already noted how the farmer's food contains vitamin A in the form of caroten and he gets the precursor of vitamin D changed into vitamin D by sunlight to which he is so much exposed in his out-door life. But the infants who are not exposed to the ultra-violet rays of the sun and are also not provided with milk which is rich in vitamin A and D do suffer from rickets in many cases. The unpolished rice which the farmer eats possesses excellent source of vitamin B. Vitamin C and others are found in various food stuffs, vegetables and fresh fruits that he eats and possibly he does not suffer from their deficiencies.

Lucknow P. K. UPADHYAYA

THE INDIAN FOOD PROBLEM

In 1919 I made an humble attempt to estimate the shortage of food-grains in India during the period 1911-1918. The results of my investigations were published in the *Indian Journal of Economics* in 1920. The subsequent events have proved the correctness of my conclusion that two-thirds of the people in India, on an average, get nearly three-fourths of the food given to prisoners in jails. The recent famine of Bengal which resulted in untimely deaths of lakhs of people through starvation, brought the question of food shortage to the forefront and now both the Government and the public are anxious to increase the production of articles of food in India. But the problem of starvation in India will not be permanently solved by merely increasing the production of food-grains. Increase in average income of the people through industrialisation or improvement in agriculture may lead to a largeer number of people getting more food than at present and a great increase in the production of food-grains may lead to their fall in prices, still I believe that crores of people will continue to remain in semi-starved condition unless adequate efforts are made by the Government to tackle the problem of starvation in India fully in right earnest. An increase in the average income of the people will not necessarily mean an increase in the minimum income to a subsistence level. As long as the income of a large number of people in India remains below the subsistence level, the problem of starvation cannot be permanently solved. Most of the development schemes of the Government have been prepared with the object of helping demobilised soldiers and military officers. The benefit from these schemes will undoubtedly accrue to these persons and other favourites of the Government who may be Capitalists, Zamindars, Contractors and Title-holders. Evidently these are not the people who are in the greatest need of help from the Government.

In India there is a large number of cultivators in every village who cultivate tiny plots of land and their holding is so small that even when all the plots are consolidated, it is inadequate to produce sufficient quantity of agricultural commodities to enable the cultivators and his family to get sufficient food throughout the year. It must be realised that improved methods of cultivation cannot be profitably used on these small holdings and when propaganda work is undertaken for improvements in the methods of agriculture, zamindars and rich cultivators who cultivate more

than 20 acres of land will only be benefited. Most of the cultivators who possess uneconomic holdings will practically remain unaffected and will continue to starve even when agricultural production is increased by 100 per cent in India. No attempt has yet been made to estimate the number of persons having uneconomic holdings under the present conditions. The proportion of such persons to total rural population is different in different provinces, but in our opinion it is not less than 20 per cent in any province. Therefore the number of persons depending on uneconomic holdings for their livelihood is not less than 6 crores at the present time. All these persons are living in semi-starved condition.

In addition to persons who cultivate uneconomic holdings we have a large number of landless labourers in rural areas who have become heavily indebted to landlords or rich cultivators on condition that in lieu of interest they would work for their creditors on a very small wage. In the slack season they do not get work and have to starve, in the busy season they have to work for their creditors on a small wage and have to remain in semi-starved condition. Investigations of Messrs. S. Kesava Iyengar, J. B. Shukla and Dr. Radha Kamal Mukerji[1] have shown that the number of such persons is very large in Hyderabad State, Gujerat, Bombay, Madras, Behar, C. P. and C. I. But the evil is not confined to these areas only. In the remaining provinces the conditions are not much different. In U.P. I have come across many such cases. As long as these people are not freed from this economic slavery, they have no chance of getting full meal a day. The number of such persons is not likely to be less than one crore in British India.

In urban areas we have a large number of educated unemployed persons who have to remain in semi-starved condition till they get suitable employment. With the development of large-scale industries in urban areas in the post-war period, all these persons are very likely to get good employment and therefore the problem of semi-starvation would very likely be confined to rural areas only. If the industries do not develop sufficiently, we may be required to consider the cases of semi-starved people in urban areas also.

If we are anxious that starvation should disappear from India within a reasonable time, the first thing that we have to do is to recognise that it is the primary duty of the Central and Pro-

[1] See KESAVA AYENGAR, *Economic Investigations in Hyderabad State*; J. B. SHUKLA, *Life and Labour in a Gujerat Taluka*; and R. K. MUKERJIE, *Land Problem in India*.

vincial Governments in India to provide adequate facilities for getting subsistence income to all those who are in a semi-starved condition at the present time. In accordance with the principle of equality in public expenditure the State help should first be given to those who are in the greatest need of such help and evidently semi-starved persons in India are in the greatest need of this help.

In order that the State help may be properly organised and given only to those who deserve it the most, an attempt should be made to have a registration of all those persons who are getting less than subsistence income. The work of registration should not be entrusted to village patwaris, kanungoes or police officials. It can be properly done by those persons only who have gained the confidence of poor people by some social service. Very few people would be willing to disclose their actual economic conditions to Government officials who are generally not sufficiently sympathetic. Every village and every mohalla of a town or city should have a register giving the names of persons who are having less than subsistence income. This register should be revised periodically. Young children of these persons should be encouraged to get vocational and technical education by the grant of stipends on a very liberal scale. The enrolled persons should be given first preference in all Government works and big factories. Those who are willing to work but do not get work and do not want to leave their homes should be provided with work in their own villages or mohallas in cottage industries which should be organised and subsidised by the Departments of Co-operative and Industries. Those who are old and sick or disabled and have nobody to look after them, should be provided with facilities for getting food free of charge . The whole scheme should be properly planned and the work should be carriep on in such a way that after a period of ten years there may be no person in the country who may be without adequate income for getting sufficient food for himself and his family.

The work will not be easy. It is just possible that the number of persons in real need of help from the Government in the beginning may be about 7 crores and an expenditure of hundreds of crores of rupees may be necessary. There are various plans of economic development before the country. Government plans have to be considerably modified to suit our purpose. The Bombay Plan does not give sufficient importance to the development of rural areas and therefore very large number of persons who are in semi-starved condition in rural areas are not likely to get adequate help. The People's Plan and the Gandhian Plan are likely to benefit the semi-starved people more than what is provided in the Bombay Plan. The great merit of the Plan prepared by the

author of this paper[1] lies in guaranteeing a fair minimum wage and employment to all people living in the rural areas and therefore it is likely to benefit the semi-starved people to the greatest extent. It should be given a fair trial. All the proposed plans should be carefully examined by a committee of experts and a detailed workable plan should be chalked out. The main object of the final plan should be to make India free from the want of necessaries for existence within ten years. The Government should put this final plan into execution in the same spirit in which it has brought the Great War to a successful end. It is in this way alone that the great problem of making the people of India absolutely free from the want of food can be properly tackled.

Allahabad University DAYA SHANKAR DUBEY

V. G. KALE MEMORIAL FUND

At a meeting of the friends and admirers of the late Prof. V. G. Kale, held in Bombay on 23rd April 1946 under the Presidentship of the Hon'ble Mr. V. L. Mehta, Finance Minister, Government of Bombay, it was resolved to raise a Prof. V. G. Kale Memorial Fund for instituting an endowment in the proposed University of Poona to further the study of "The Economics of Indian Industry." Pending the establishment of the Poona University the endowment, it was agreed, should be used to promote the same object at the Gokhale Institute of Economics and Politics, Poona.

A Memorial Committee consisting of the following members, with powers to coopt, was constituted to take all necessary steps to raise the fund.

1. Sir Janardan Madan Kt. (*Chairman*).
2. The Hon'ble Mr. V. L. Mehta.
3. Mr. R. G. Saraiya.
4. Mr. F. I. Rahimtoola.
5. Mr. F. D. Pudumjee.
6. Mr. S. P. Ogale.
7. Mr. C. G. Agashe.
8. Mr. M. L. Dahanukar.
9. Mr. N. G. Naik.
10. Mr. Divekar.

[1] Daya Shanker Dubey, *Our Agricultural Plan.* (Allahabad, 1945).

11. Mr. R. V. Bhide.
12. Prof. G. R. Kokil.
13. Mrs. G. Kokil.
14. Mr. S. R. Rajguru.
15. Prof. D. R. Gadgil.
16. Prof. D. G. Karve (*Secretary*).

Mr. D. K. Sathe, Chairman, Bank of Maharashtra, Poona and Mr. V. P. Varde, Acting Honorary Managing Director of the Bombay Provincial Co-operative Bank, were appointed Treasurers.

As it is desirable that the fund should be collected as early as possible and that the amount collected should be sufficiently large to make the endowment worthy of the great service rendered by the late Prof. V. G. Kale to the economic progress of the country, we on behalf of the Memorial Committee, approach the large body of Prof. Kale's friends and admirers with a request that they should make an early and a generous donation to the fund.

Correspondence should be addressed to Principal D. G. Karve, Secretary, Prof. V. G. Kale Memorial Fund, Poona 4, and remittances should be sent either to the Secretary or to the Chairman, Sir Janardan A. Madan Bombay.

ECONOMIC LITERATURE

BOOK REVIEWS

POVERTY AND SOCIAL CHANGE, by Tarlok Singh. Published by Messrs. Longmans Green & Co., Calcutta. 1945. Pp. 200. Price Rs. 3-8-0.

This is a simple, unassuming but a very remarkable book. It is the first attempt of its kind—an attempt to deal with a fundamental problem of our economic life—the problem of extremely small holdings in this country, which are, as every one knows, a very important cause of our agricultural inefficiency, waste and stagnation. The problem is admitted to be fundamental but in all economic plans which have so far been published no solution of the problem has been suggested. The Bombay planners have referred to co-operative farming as a way out of the difficulty but have not worked out the idea or offered any concrete proposals. The same idea has found favour in the Peoples' Plan, but again there is no attempt in the plan to suggest how co-operative farming can be reconciled with or introduced in spite of the retention of peasant property in land. The agricultural plan of the Government of India has been worked out on the assumption that agricultural produce of the country can be doubled in 15 years without making any basic changes in the agrarian relations or unit of cultivation.

All earnest students of the Indian economic problems know or at least should know that the assumption is invalid and dangerous. Mr Tarlok Singh recognising the imperative necessity of changing the entire basis of rural economy in the interest of efficiency, justice and co-ordinated economic development of the country comes into closer grips with the fundamental problem and suggests concrete methods by which it can be solved. The language of the book is simple, straightforward and elegant. The treatment shows a clear insight into the nature of the problem, its intricacy and its relation to the whole question of poverty and social change. The author does not state his faith anywhere, but it is quite clear that he believes in change by consent, social and economic equality within the limits set by the need for retaining incentives to economic efficiency, rationalization and modernization of our economic life and radical changes in the whole framework of our economic and social system. The book is free from any 'ideological' bias and yet it is essentially progressive and forward-looking.

His concrete proposals may be briefly summarised. He proposes to retain the present property rights in land—superior and inferior. He would have all land leased to joint organization of the village which would divide it into 'work-units'—an allotment large enough which can be cultivated by a pair of bullocks and family labour with seasonal assistance of hired labour. These allotments are to be assigned to the cultivators, the owners in the village having priority in receiving the assignment. A certain portion of the village land is to be reserved for fruit and vegetable cultivation and the rest to be divided into 'work-units'. The owners who do not cultivate are to receive rents in cash or kind from the joint management which would be deducted from the gross produce or its value and the rest would be the reward of the assignees of work units for their labour and risk. The joint management would be the agency through which the cultivators would get credit, expert advice, central directives for crop-planning, which would manage directly fruit, vegetable, poultry, dairy farms and stimulate the development of co-operative

enterprises for undertaking the management of small industries. This organisation is, in due course, expected to develop and modernize its technique, acquire interest in large-scale industrial undertaking to be located by the state in rural areas, and buy out superior interests, function as a local organ of national policy and acquire a momentum from within for continuous and sustained progress on lines suited to the needs of the village and its specific environment and conditions. It is expected that the movement shall, as it develops, show initiative and capacity for re-adjustment, tap new reserves of ability and leadership and provide correctives and safeguards against risks inherent in the new venture. This change in the basis of rural economy would establish a close and organic link between town and country, agriculture and industry, rural civilization and modern efficiency.

These proposals are meant to be applied to peasant villages. For landlord-held villages the author proposes management on similar lines with full protection of the interest of the labourers and cultivation. But as a matter of fact the area under the direct control of the landlords is a very small proportion of the total cultivated area, protected tenants, who predominate in the provinces in which landlords are important, can perform the same function as peasant proprietors in the Punjab and Ryotwari provinces. If the executive committee of the joint management can assume the liability for the amount due to the landlords, similar organisations can be set up in all Provinces except in mountainous area where the physical environments make joint cultivation extremely difficult.

Mr. Tarlok Singh has given careful thought to the problem of labour surplus – the labour which would become superfluous by the re-organization of rural economy on the lines suggested by him. He estimates that nearly 20 to 22 million adult males or more than one third of the agricultural population would have to be provided for when the scheme is fully in operation. He proposes to absorb this labour by the development of local and large-scale industries in rural area and state-directed vocational guidance. He suggests that at the outset the experiment should be tried out in eight villages in every district, in which the state should besides taking the initiative in converting the villagers to the practicability of the scheme and its beneficent character, provide social services, guarantee of employment for all and expert advice through a farming supervisor. According to his estimate nearly 54,000 men would become surplus and have to be provided for if this experiment is carried out on the scale indicated by him. His statistical estimates are based upon the existing admittedly unsatisfactory materials and are in some important respects open to criticism. But that does not affect the validity of his point that an experiment on a scale large enough to yield results which can be made the basis of further development in the light of actual experience can and should be tried.

My own view is that if joint management can be introduced on the scale suggested by Mr. Tarlok Singh, co-operative farming in which the village land is treated as one farm would probably not be found impracticable and of course be much simpler and more beneficial. But he suggests the line of least resistance, and it is worth while giving it a trial if it is found by experience that this is the best method of making a start for the re-organization of agriculture. Mr. Tarlok Singh's ideas would have to be, as he admits, elaborated with reference to the specific problems of each district in which the experiment is to be tried and given a concrete shape suited to each area. But immediate action for re-organizing agriculture on these or similar lines is called for. Without it our national planning would be lacking in reality and have little prospect of success.

When this change is carried out on a national scale we would in my opi-

nion come up against the determined resistance of landlords, big and small whose number runs into millions—a point the importance of which Mr. Tarlok Singh does not, it appears to me, rightly appreciate. Nation-wide experiment can, however, be carried out without much difficulty if the Provincial and Central Governments are serious and realize its potential importance. I do hope that this book will be as widely read as it deserves to be. Mr. Tarlok Singh is entitled to our sincere thanks for having made concrete and workable proposals for the solution of the most fundamental and baffling problem of our economic life.

GYAN CHAND

PUBLIC CORPORATIONS, Edited by A. N. Agarwala. Published by Kitabistan, Allahabad. 1945. Pp. 109. Price Rs. 4.-12-0.

This is an expert study of the economics of public corporations which has been very ably edited by Mr. A.N. Agarwala of the Allahabad University. The United Kingdom Commercial Corporation, the United Kingdom's New Financial Corporation, United States Commercial Company, and the Inter-American Development Commission and the Development Corporation of Chile, have been described by various experts. The book opens with a comprehensive chapter on Public Corporations by Prof. Gyanchand and the concluding chapter has been contributed by Mr. Agarwala himself, on the need for Indian Commercial Corporation.

The United Kingdom Commercial Corporation, more popularly known as U.K.C.C. has played a very prominent part in the trade of U.K. during the war with the various countries of the world. In Spain and Portugal the U.K C.C. was even more active in waging economic warfare against the Axis as is evidenced by the bidding up of the prices of Portuguese wolfram from £300 to £ 6,000 per ton. During the severe winter of 1941-42 agents of the U. K.C.C. were reported as forestalling the Germans in buying warm woollen clothing which were urgently needed by the Axis for the soldiers on the Russian front. In addition the U.K.C.C. bought Spanish oranges and Portuguese sardines for the Ministry of Food and in return supplied these countries with wheat bought in Argentina, cotton bought in Egypt, sugar bought in West Indies and the like.

There was a substantial expansion in the work of the UKCC following the German attack on the Soviet Union. In the Middle East the immediate problem was one of vastly improving the natural supply route through Iran, and the UKCC was placed in charge of organizing and supervising this task. It acquired locally or in the United States a fleet of thousands of trucks, established garages, repair shops, and rest centres, and recruited and trained some 8,000 Iranians as drivers, loaders, and other essential workers. As a correspondent of the *London Times* wrote, "One cannot travel far anywhere, on the roads of Persia without meeting a UKCC lorry." Furthermore, the UKCC was utilised as a procurement agent, independent supplies moving under mutual aid and military agreements, in equipping the Soviet Union with essential raw materials for industry.

The above account of the activities of the UKCC and its subsidiary bodies shows the vast extent of its operations and presents some problems of fundamental importance for countries like India, not only during the war but also in the post-war years. It seems that the vast experience that has been gained by such corporations during the war years is likely to influence the policy in the post-war years and some sort of such corporations are likely to continue even as a permanent machinery in the post-war period. If our presumption is correct then it means that we cannot afford to let our

trade with foreign countries in the present uncontrolled and chaotic state. It is with this intention in view that Mr. Agarwala has made a strong plea for immediately establishing an Indian Commercial Corporation which should be owned and operated by the commercial community of this country together with the Government participation if necessary and supervised and controlled by the Indian Government. His suggestion deserves very careful and sympathetic consideration in the hands of the Government for developing India's trade with other countries and at the same time to assure reasonable prices to our cultivators and manufacturers. This aspect of the question presents some problems of first rate importance, the proper solution of which is very essential if our economy is to develop on the right lines. This function has been very brilliantly performed by Dr. Gyanchand in a comprehensive chapter of 35 pages where he has put under searching criticism the whole question. There is no doubt that Public Corporations are growing in importance and it is felt that we should create an organization which should avoid ruthless competition an unorganized action on one side and the rigid state control with bureaucratic officials at the head on the other side and should keep the spirit of enterprise of private organizations and the wider and national outlook of State enterprizes.

President Roosevelt in recommending the Tennessy Valley authorities referred to it as a corporation clothed with the power of a Government but presented with the flexibility and initiative of a private enterprise. Dr. Gyanchand has sounded a very useful note of warning and has emphasised that we should see that such corporations must not be used for retrogressive ends. He says that the idea has been grossly misapplied in the Fascist and semi-Fascist countries.

Its strong appeal to Big Business in all countries is due to its potentialities for evil. It sees in the idea a promise of the prolongation of their monopoly position, confirmation and strengthening of its privileges, resolution of all conflict by statutory recognition of its supremacy and grant of the right to draw upon the public exchequer for large subsidies to inefficient firms and industries which have been rendered out of date or obsolete owing to the change in the technique or economic position. Very great discrimination is, therefore, necessary in assessing rightly the proposals for the formation of public corporations to know their real intent and effect from the point of view of administration of public enterprizes or regulation, control and co-ordination of private business to secure its adherence to public policy or its observance on a unified basis. But this method, like all methods, is capable of being greatly abused and extreme vigilance is required to prevent its being made a camouflage for the pursuit of anti-social ends and purposes.

Public utility corporations are likely to play an important roll in the post-war economy of India and it seems that there is a general agreement that industries of basic national importance should be nationalised. Therefore the problem, not only of public corporations but all types of public utility organizations needs a clear examination from theoretical and philosophical point of view.

I would venture to suggest that Dr. Gyanchand who is most competent for a work of this nature, should undertake thorough examination of this problem in a comprehensive monograph. Similarly the establishment of a commercial corporation in India needs more detailed and careful study of the constitution and results of the various public utility corporations. This work should be undertaken by Mr. Agarwala who possesses a tremendous amount of energy as has been evidenced by a number of brilliant studies published by him. In the absence of such two detailed studies I strongly

recommend the present book not only to the students of economics but to public men and administrators also.

ANWAR IQBAL QURESHI

INTERNATIONAL INVESTMENT AND DOMESTIC WELFARE, by Norman S. Buchanan. Published by Henry Holt and Company, New York. 1945. Pp. 249. Price $ 2.75.

The employment-creating function of foreign trade is at present a subject of acute controversy in the United States of America and opinions vary from the extreme that foreign trade is indispensable for maintaining full employment in that country to the other extreme that reliance upon expanded foreign trade as a support of domestic employment will aggravate international friction. Professor Buchanan handles the subject realistically and penetratingly even though with a certain amount of pessimism leading to more or less isolationistic conclusions. He examines the full and all-sided implications of an expanded export programme arising out of giving loans to foreign nations and in particular focusses attention on the compensatory effect of import and the problem of securing repayment. He enumerates the points against a foreign-lending policy with great skill, ease and persuasion; and declared that "it seems unwise to proceed blithely on the assumption that foreign investment is the key to the Pandora's box of full employment." (p. 209). He also discards gifts to foreign countries, increased imports from abroad and pay-as-you-go policy as unsuitable to meet the world situation. What should America then do ? This is "extremely difficult" to say; but Professor Buchanan suggests three "major lines along which American policy might properly develop", *viz.*, to maintain her domestic economy at high levels of income and employment which to him is a problem of achieving a sufficient volume of real investment, to a systematic lowering of American tariff to discover the absorptive capacity of the American market for foreign goods, and to stock pile imported goods for use in times of national needs.

The problem which Professor Buchanan has studied with such profound ability and knowledge in its factual and analytical aspects, is an extremely difficult and complex issue confronting America in particular, and the whole world in general; and we may say without reserve and with emphasis that in its disentanglement a perusal of this work will be of enormous assistance.

The Part One of the book is devoted to a study of the progress of industrialization in backward countries, its effects and how far foreign loans can be depended upon for this purpose. His conclusions appear to be rather discouraging, but they have been arrived at after a careful and analytical study which deserves close attention. This part provides a background to Part Two, the main part, of the book which we have discussed above.

A. N. AGARWALA

TOWARD STABILITY OF WORLD ECONOMY, by Oskar Piest. Published by Julian Messner, Inc. New York. 1945. P. 61. Price $ 1.00.

The book is a scholarly examination of the major issues involved in the Bretton Woods agreements and their bearing on the economic structure of the U.S.A. It is not the intention of the author "to give a point-by-point analysis", but rather to "inquire into the requisites of the stability of world economy" and to investigate how far both the International Monetary Fund and the International Bank for reconstruction and development contribute to create conditions toward that goal.

In the *first chapter*, the writer gives an outline of the two institutions and hails the general plan as a new approach, as exhibiting vision and courage and as that discarding obsolete methods. The author raises the question whether the constitution and functions, the setting up of the two projected institutions prove satisfactory; but leaves his answer vague and incomplete. In the *second chapter* Mr. Oskar Piest is on a more stable ground. He discusses in a broad and realistic way the implication of "economic stability" as an effort to keep "the various up-and-down fluctuations within reasonable limits andas preventing inevitable adjustments from assuming critical proportions." Bretton Woods agreements, he believes, suggests a policy for stabilising world economy and require reconciliation of the many conflicting interests, national and international. The author urges the necessity of setting the Fund in operation without delay. He discredits the old approach of stabilising world economy by the corrective forces inherent in the free interplay of economic activity and also repudiates the commonly-offered suggestion for the restoration of the full-fledged gold standard. In view of the changed economic rstructure, he rightly thinks that the restoration of the equilibrium of inte national payments via gold standard is not merely of doubtful wisdom but even an impossibility. The International Bank embodied in the Bretton Woods Plan, in the view of the author, encourages and supports every nation to develop its potentialities without the risk of economic or political dependency. In this respect the Bank's assignment is a charter of economic freedom for the smaller and weaker nations. If it proves a medium for moving one step nearer Freedom from Want, in spite of its faults, it should be quickly executed during peace-time. In the *third chapter* Mr. Piest deals with the responsibility and share of the U.S.A. in the B.W. agreements. He points out that the key position of his country "in all phases of international matters, economic and political, predestinates her to leadership" while she has also to take up the responsibility in her internal policy toward international repercussions. He is convinced that the voting power of the U.S.A. in the Fund and in the Bank is fair. But even in the American Press, this point has been subject to controversy.

The only flaw in an otherwise interestingly-written book is its circumscribed scope in being limited to the American point of view. The overall conclusion is that no matter from what angle we look at the problem, economic isolationism will prove more costly to U.S.A. than international collaboration. The volume does not show how the Bretton Woods agreements bless and benefit countries in very different stages of economic evolution like India and China, nor does it throw light on some of the misgivings expressed in the British Press and by the public in India. If a man believes that international partnerships are a good wager, he is likely to favour the Bretton Woods plan. The author has admirably succeeded in giving a lucid and realistic analysis and in clarifying to the general reader certain major issues involved in the plan.

B. Govinda Row

Britain's Sterling Balances and External Debt, by Donald H. Heatherington. Published by Kitabistan, Allahabad. Pp. 62, Price Re. 1-12-0.

This booklet is a survey and analysis of United Kingdom's changing financial position *vis-a-vis* other countries and indicates its implications. It is divided into three chapters. In the first the process by which British Overseas investments have been liquidated and sterling assets repatriated has been explained, in the 2nd estimate is given of sterling balance accumulated by other countries during the war and of external obligation of the United

Kingdom and in the 3rd the bearing of both on the economic and financial position and prospects of that country has been indi cated.

The total external liabilities of United Kingdom are, according to the figures given by the Chancellor of the Exchequer, estimated to be £3,000 million at the end of 1944 and will, it is expected, rise to £4,000 million by the end of the current year. According to the figures given by Mr. Heatherington, the liabilities will probably be lower, but he too holds they will be large and create a problem of great difficulty for United Kingdom. Against these, according to him, the British unrepatriated foreign investments amount to £ 2,395 millions and at first sight it appears that at least half of the external liabilities could be met by the liquidation and repatriation of foreign investments by United Kingdom. But in three countries—India, Egypt and Eire—these fall far short of the amounts due to them. Sterling assets of India, for example, amounted on the 20th July, 1945 to Rs. 1436 crores or well over 1,000 millions and private British investments in this country are estimated to be £250 millions. Moreover, all these investments are not easily realizable and it may be difficult to acquire them for repatriation. Great Britain has, according to the latest information, accumulated gold and liquid assets in foreign countries to the extent of £500 million, but a considerable proportion of this fund will be required for current financial and commercial transactions.

The problem for Great Britain is serious and India's interest in its solution is well known. We have to repatriate our sterling assets—i.e. use them for financing economic development of the country by buying the capital goods that we may need and cannot produce at home. We too will need a portion of these balances for maintaining foreign currency reserves. Before the war our sterling assets amounted to nearly £ 60 millions and were found adequate for our needs. We can in future use our currency reserves with the International Monetary Fund. Our quota to the Fund has been fixed at £ 100 millions and this amount together with the facilities provided by the Fund would suffice for meeting any adverse balance of trade that might arise on current account. Our 'free' sterling assets—the assets which we could utilize for financing economic development would be considerable —probably £ 900 millions and any solution of the problem which would enable us to draw upon them would be of great importance to us.

Mr. Heatherington does not make any very constructive contribution to its solution. He suggests that some empire countries might cancel their claims on United Kingdom as additional contribution to the financing of the war. This is not likely to be acceptable to us, India having already, according to the general opinion in this country, paid more than her due share towards the cost of the war. He further suggests that the British air-fields and war-supplies might be transferred to the creditor countries. Air-fields in India have already been charged to Indian account and war-supplies have only a very limited value for the liquidation of the debts due to us and probably would not be of much use to us. Our balances have to be used for buying capital goods from wherever we can get them on the most favourable terms and this means that to the extent to whch it does not suit us to buy them from Great Britain, our assets should be capable of being converted into currencies of the countries which can meet our needs. This is what Great Britain is not in a position to do. She is aiming at increasing her exports by 50 p.c. and if she can regain her old markets and develop new ones, she has the productive capacity to realise this aim, her output having increased by nearly 40 p.c. during the war. Her national income after the war with full employment is likely to be £7000 to 8000 millions, and if she controls expenditure on consumers' goods and services and does not allow it to exceed £3500 million the present expenditure being nearly £3000 million, she will by rationing, control

of imports, exports, exchanges and investments be able to meet her external liabilities to the extent of three to four hundred million pounds after making adequate provision for public expenditure on defence and social services and capital investments at home on housing and economic reconstruction. Great Britain will have the surplus resources to pay off the external claims on her within ten years if she has the will to do so. Mr. Heatherington, however, does not adopt this view and seems to think that consolidation of these claims into long-term loan would be desirable in the case of a country like India with large balances.

This small book is, in spite of absence of very constructive suggestions, a good study of the facts of the case and is well worth reading on that account.

GYANCHAND

WHITHER AGRICULTURE IN INDIA, by Dr. Baljit Singh. Published by Messrs. N. R. Agarwal & Co., Agra. 1945. Pp. 346. Price Rs. 8-8-0.

In the first chapter of this book the economic and social backgrounds of Indian agriculture have been discussed and it has been clearly shown that agriculture is being carried on in India at the present time under deficit economy and there is absence of planning and control. The second chapter deals with the physical background and the problems of reclamation of land and consolidation of holdings are discussed in chapters III and IV. We agree with the author when he says that 'no true planning of agriculture in the country can succeed without making proper provision for the abolition of the present agricultural holdings and their combination into proper economic unit.' But we feel that the problems of collective cropping and collective farming should have received more attention. Chapter V deals with rights in land and the author concludes that a functionless landlordism which is confined not only to the Zamindari areas but is rapidly growing even in the ryotwari areas, stands like a block in our way to progress and prosperity. He advocates the payment of a compensation to the maximum extent of twenty times the net revenue to all proprietors of land. But he has given no arguments in justification for payment at such a high rate.

Chapters VI and VII show the main trends in the production of crops and rightly bring into prominence the shortage of foodgrains in India. Cattle problems are discussed in Chapter VIII and the difficulties of marketing have received proper attention in Chapter IX. In the chapter on agricultural price structure (i.e. Chapter X) the author, after making a brief survey of agriculture in the depression period of 1925-40, came to the conclusion that dislocation in agricultural industrial price equilibrium caused a serious reduction in the standard of living of the people and at the same time resulted in unprecedented economic regress. To safeguard against the repetition of such a national calamity, it is urged that full attention should be paid to the maintenance of a balance between farm and industrial prices in the post-war period. But the learned doctor has not suggested any practical method for stabilising agricultural prices in India.

The problem of rural indebtedness has been discussed in Chapter XI and the results of the activities of Co-operative Societies have been given in Chapter XII. We feel that the working of better living societies and multiple purposes societies, in view of their practical importance, should have been given more attention. In Chapter XIII the utter inadequacy of funds provided by the Provincial and Central Governments for agricultural developments should have been fully demonstrated. It may be noted that a sum of nearly one lakh of rupees is required to bring about all-round improvement in the

economic conditions of the people of one village only and unless the Government is prepared to spend money liberally for agricultural improvements, it should not take in hand any scheme of rural reconstruction.

In the last chapter the recent policy of the Government, with a brief analysis of the most important schemes of agricultural improvement, has been discussed. This book was published in 1945 and the Gandhian Plan was out in 1944. The absence of any discussion regarding this plan in this book is undoubtedly a serious omission.

In spite of these minor omissions, the book will prove very useful to the students. I strongly recommend it to all those who are interested in the problems of agricultural economics.

DAYA SHANKAR DUBEY

PROBLEMS OF SUGAR INDUSTRY IN INDIA, by M. P. Gandhi. Published by Messrs. Gandhi & Co., Bombay. 1945. Pp. 375. Price Rs. 12.

The sugar industry is only second to the cotton mill industry in the number of mills, capital invested, labour employed and benefit bestowed on the agricultural classes. It is definitely a child of protection, and the phenomenal growth of the industry, making the country self-sufficient in sugar within 3 or 4 years of the grant of protection in 1932 has fully justified the action of the Government. On an average India was importing sugar worth Rs. 15 crores annually. All this money was kept within the country. What the State lost in revenue was more than compensated in other directions. The industry has rendered a valuable service during the war. We hope the Government will carefully consider the claims of the industry and the very many problems regarding location, size, finance, price of cane, utilization of by-products, excise, transport facilities between field and the factory, etc.

The industry has enjoyed protection for 15 years, excluding the high revenue duties charged before 1932. Yet it cannot be said that the cost of production of sugar is as low in India as it is in Java or Cuba. For achieving this object improvements shall have to be made both in the factory as well as in the field. We cannot expect the small grower to compete with the factory in foreign countries that grow their own cane. Probably it is the most controlled industry in the country but most of the control was confined to the two provinces of U.P. and Bihar. While production of sugar was restricted in these two provinces in 1940-41 and 1941-42, it was encouraged in many other provinces and Indian States. That should be avoided. There should be an All-India policy for the industry.

Mr. Gandhi is an acknowledged authority on the sugar industry. His Annual is a useful compendium of all matters relating to sugar. The present work is a highly useful study. At the outset he has given very useful tables regarding production, imports and exports, etc. He has devoted two chapters to the history of the sugar industry and has critically examined the protectionist policy in relation to this industry. One may not quite agree with his views on the fixation of cane prices, particularly his criticism of the sliding scale policy of the government or on some other topics. But there is no doubt that the work under review is a factual as well as a critical study on the subject.

K. L. GOVIL

A DETAILED PLAN FOR THE DEVELOPMENT OF INDIAN JOINT STOCK BANKING WITH A SPECIAL REFERENCE TO THE ASSISTANCE BANKS CAN RENDER IN THE GROWTH AND PROGRESS OF INDIAN INDUSTRY, by Brij Narain. Published by Messrs. Uttar Chand Kapur & Sons, Lahore. 1944. Pp. 111. Price not given.

We are indebted to the Traders Bank Ltd. for inviting essays on a topical subject. At a time when plans for industrial development are being considered, the role of industrial finance needs a critical examination. Probably the greatest single hurdle in our industrial development is the lack of financial resources in the country. This question was thoroughly discussed by the Central Banking Enquiry Committee about fifteen years back and the recommendation of the Committee hold the field even to-day. The learned author has also freely drawn upon these recommendations.

The essay is divided into three chapters : Chapter 1 deals with Money Market, Chapter 2 with the Capital Market and Chapter 3 outlines a plan of reconstruction. He has given the deficiencies and drawbacks in our banking system in relation to the industrial finance and has concluded that before the war there was no relation between credit and prices in India and that our Central Bank largely served an ornamental purpose. His reference to foreign systems particularly to those of Germany and Russia are helpful. We agree with the learned author that the orthodox methods of finance will not industrialise India within a reasonable period of time and that India can be rapidly industrialised through bank credit if the country can be persuaded to adopt unorthodox but not untried methods of finance. The same view was expressed by Sir Purushottam Das Thakur Das and several others who appeared as witnesses before the Central Banking Enquiry Committee when they spoke on the deposit system of industrial finance in India.

The author supports the Bombay Planners in regard to 'Created Money' which has been opposed to by Prof. C.N.Vakil on orthodox grounds. Prof. Brij Narain assumes 'A Closed Economy' and rigorous control by the Central Government of all aspects of economic life. He holds that money created to finance productive enterprise need not cause any inflationary rise of prices. We do not know what kind of economy we are going to have and whether the Central Government shall exercise rigorous control over all economic activities. But if we could take a hint from the industrial policy announced lately by the Central Government, it seems that the Central Government will exercise a certain amount of control at least of basic and key industries. However, in the absence of a political settlement it is difficult to dogmatise.

Although the heading of the essay is 'A detailed plan for the development of Indian joint stock banking etc. etc.' the author at the close of his essay rightly confesses that the work under review is not a detailed plan. We commend the essay as a scholarly contribution on the subject and hope the Traders' Bank will invite essays on other similar subjects.

K. L. GOVIL

BOMBAY COTTON ANNUAL 1943-44 (No. 25), Compiled and Published by C.M. Parikh by the authority of the East India Cotton Association, Ltd., Bombay. Pp. 242. Price Rs. 3.

It is an authoritative publication relating to cotton and cotton manufactures and yarns. It gives statistical tables on crop forecasts, acreage, production, imports, exports, consumption, prices and carry-over of cotton, and all necessary tables regarding cotton textiles. It is a highly useful compendium for all concerned.

K. L. GOVIL

THE INDIAN WORKING CLASS, by Radhakamal Mukerjee. Published by Hind Kitabs, Bombay, 1945. Pp. 336. Price Rs. 12 - 8 as.

This is an exhaustive and up-to-date work on Indian labour problems. It contains eighteen chapters dealing with recruitment problem conditions of employment, female and child labour, the wage problem rationalisation and intensification, housing, social welfare and security, trade unionism and industrial peace. The range of topics covered is very extensive and the wealth of details and information is profound. Dr. Mukerjee throws facts after facts before his reader which appear to come to him almost unbidden. Indeed, one cannot keep feeling that the work suffers from excessive descriptive and factual treatment which eclipses such analytical study as the book contains. It bears distinctive impress of the findings and views of the Behar Labour Enquiry (Rajendra Prasad) Committee of which Dr. Mukerjee was a member.

There was need of an uptodate work on Indian labour problems and this has now been satisfied by Dr. Mukerjee. Students of labour economics in this country will surely read this exhaustive work with interest and profit. We recommend it strongly to our readers.

A. N. AGARWALA

SILK INDUSTRY (SCOPE FOR FURTHER DEVELOPMENT IN INDIA EXAMINED), by E.V.S. Maniam. Published by Bureau of Economic Research, Cawnpore. Pp. 28. Price not given.

In this small booklet the author has not only given the history of the silk industry, but has made a number of practical suggestions to the farmer and the educated young man who can benefit by this industry. He has also dealt with the war-time work done under state patronage. We commend this brochure to the general reader as well as to the student of the subject.

K. L. GOVIL

ECONOMICS, A TOOL OF DEMOCRACY, by Hedley Shepherd. Published by Kitab Mahal, Allahabad. Pp. 46. Price Re. 1.

The booklet is a refreshing contrast to the many modern works we come across. The aim of the author is to stimulate the interest of the general reader in the subject of Economics. The book is divided into four parts. The first one contains a descriptive analytical list of the elementary books which elucidate accepted orthodox economics, of text-books which go into matters more fully, of those dealing with the history of the development of economic thought, of treatises containing an overall view of the present and past works of masters, of works embodying a detailed study of certain important portions of economics. Mr. Shepherd is conscious that the works mentioned by him "represent a formidable programme of reading", but opines that "if a country is to improve its position *vis-a-vis* the rest of the world, or even maintain its position, it is essential that its coming generation of citizens must be acquainted with the extensive field of knowledge" outlined by him.

In Part 2, the author shows that from the ancient time down to the end of the Middle Ages, economic ideas and facts were inextricably discussed along with religious, ethical, political, legal questions, that in the 16th century material conditions of mankind and nature of thought were conducive to the emergence of Economics as a distinctive body of learning, that further delimitation of its scope proceeded in the modern period, and that the subject evolved in a "zig-zag pattern of a series of revolts by the economists against

the ideas of their immediate predecessors". It is clearly explained how each of the groups of writers—Mercantilists, Physiocrats, Classical and Individualistic writers, Nationalists, Historicists, expounders of new Classicism, Socialists, Price-economists, Welfare-economists, Institutionalists—played its part in expanding, refining and developing Economics. The author puts in a plea for our assimilating and applying such knowledge for our collective and individual benefit.

The next section lays stress on correct understanding of the well-known principles or laws of economics which will be helpful in finding solutions to current economic problems. Finally, the link-up between discussions of contemporary problems and the fundamental principles and economic facts is illustrated for the purpose of proving the value of such working knowledge of Economics to the ordinary man. Mr. Hedley Shepherd has admirably brought out the chief aspects and the import of current problems like Nationalisation, Private Enterprise, Social Security for All, War Finance, Full Employment.

The author deserves praise for making his monograph an appetiser and a guide and for stressing the importance and value of a knowledge of the subject of Economics which has come to be an instrument of Democracy through which men are trying to promote their welfare.

B. GOVINDA ROW

VERDICT ON SOUTH AFRICA, by P. S. Joshi. Published by Thacker & Co. Ltd., Bombay. 1945. Pp. 365. Price Rs. 9-12-0.

It is a fitting reply to 'Verdict on India'. The author has made a strong indictment of the white civilization for its misdeeds. In a masterly and vigorous style the author has narrated the tyranny of colour in South Africa. He has given a very vivid picture of the black deeds of the black continent. To say nothing of disabilities and humiliations suffered by non-whites in the railway trains, parks and libraries, etc. even the House of God is not open to them! Deshbandhu C. F. Andrews described a personal incident when he invited Mahatma Gandhi to a church. Again, on page 333 the author quotes The Very Rev. W.A. Palmer, Dean of Johannesburg, who in a striking sermon preached at St. Mary's Cathedral on the last day of 1941, declared:—

> "It is sheerest hypocrisy to pretend to be shocked at Hitlerism and the Nazi spirit, with its hideous tyranny of the strong over the weak, if we are reproducing that spirit in our attitude to those weaker than ourselves in our own race or in our dealings with the coloured and native races in our midst. Things may have improved, but South Africa is not yet free from a colour prejudice as foul as Hitlerism; and it recoils on ourselves, for, as Lord Acton said: 'Power corrupts; absolute power corrupts absolutely'."

In the introductory chapter the author has examined the composition of the different races inhabiting South Africa and has indicated the problem in a nutshell. In the later chapters he has given a historical development of the question since 1860 when Indians were invited to serve as indentured labourers to the passing of the Pegging Act and its reactions. In the last chapter he has very clearly and forcefully put the Indian case for a fair treatment.

We strongly commend the book to the general reader and to the student of politics and current affairs.

K. L. GOVIL

SCHOOL CONSOLIDATION AND STATE AID IN ILLINOIS, by Leon H. Weaver. Published by the University of Illinois Press, Illinois. 1944. Pp. 115. Price $ 1.50.

This is a study presented in 1942 as a thesis for the degree of Doctor of Philosophy in Political Science at the University of Illinois, U.S.A.

The problem taken up for investigation was a practical problem for the State of Illinois. It was essentially a problem of educational organization, particularly in so far as it was affected by economic factors controllable by the State. In the author's own words "The Illinois system of school organization is a very decentralized one. Compared with many other States, Illinois has been a laggard in reducing the number of school units and the number of small rural schools......In the light of the successful attacks on proposed legislation to give a State agency power to reorganize local school units, it seems reasonable to assume that, so far as the foreseeable future is concerned, reorganization by *fiat* of a State agency is not within the bounds of the politically feasible. If this is true, school reorganization must be promoted by other methods such as the encouragement of the formation of larger school units by establishing economic inducements by granting them more liberal aid than the less adequate units. This study is devoted to the latter problem, and is an investigation of the means by which and the extent to which state and policies can be used in Illinois to further consolidation of school units."

The problem of educational organization in India, particularly with reference to its large rural population and its single-teacher schools, present many points of similarity with the problem under study in Illinois, although, of course, the problem in our country is much more complicated due to the backward state of society and to the absence of any educational facility whatever for the majority of our children in rural areas. When our educationists and administrators start to tackle the country's problem of educational decentralization and particularly the presence of inefficient single teacher schools in the rural areas, they will have to face many considerations of a nature similar to those reported in the study under review.

The methods of investigation and study in the present work have been scientific. Basic principles of grants-in-aid to school units have been well examined. The nature and scope of State control possible in directing educational organization is carefully analyzed, particularly under the economic and social conditions prevailing in Illinois. The present work is thus a highly useful study of the problems of educational organization in the light of a definite act of economic and social factors.

It will thus be seen that even though the conclusions of the study under review have a local bearing, its method of study and investigation have a general and wide significance. The technique of the investigation of an educational-cum-economic-cum-social problem as demonstrated in this study is highly useful for problems of social sciences in our country. One could wish that even in the limited sphere of the principles of grants-in-aid to local bodies and other school units, studies on similar lines could be undertaken in our country.

The book would therefore be found to be a valuable reading in all departments of social sciences—particularly those of the University level—where research and critical study are encouraged.

The style of the author is clear, lucid and concise. The book is well printed as may be expected of modern American publications.

C. M. BHATIA

OFFICIAL PUBLICATIONS

THE LOCATION OF INDUSTRY (Symbol: Ec. A. 11). Prepared by the Office of the Economic Adviser to the Government of India. Published by the Manager of Publications, Delhi, 1945. Pp. 101. Price As. 8.

This extremely valuable document has been prepared by the Office of the Economic Adviser to the Government of India and is intended merely for providing a basis for a threadbare discussion of the vital issue of the location of industry with special reference to India. The first 18 pages are devoted to a discussion of the theory of industrial location and general locational matters relating to this country and have been ably written. Then follows a detailed study of the locational trends in the various industries in this country during the period 1921-1939. The line of future regulation has also been indicated at appropriate places. The authors of this publication are careful not to claim any finality for their views and indeed they clearly mention the limitations in which they have carried on this study. In particular they deplore the absence of adequate data regarding industrial advantages offered by different regions, emphasise their importance, and state that when this material is procured their study can be "amplified" in various respects.

In our country the industrial development has been entirely unregulated in point of location, which has given rise to several evils. *Firstly*, the distribution of industry as between regions has become uneven. There is need of securing a balance in the development of the various parts of the country. Sugar industry, for instance, is concentrated in U.P. and Bihar where the location factor in this regard is 3.9 and 2.1 respectively. Similarly, the leather industry is mainly centred in Calcutta and Cawnpore while the iron and steel industry is concentrated in Bihar. Such blind-folded concentration does not let other regions develop their industrial resources fully and in a variegated form. *Secondly*, excessive industrial concentration leads to several social evils like congestion, house shortage, ill-health, high infantile morality and physical and moral degradation. *Thirdly*, unregulated localisation may continue in vulnerable regions, which may be extremely serious during the period of a war. In India, Bombay and Bengal, the most industrialised areas, are vulnerable and efforts must be made, as has been done in the U.S.S.R. and is being done in the United Kingdom and elsewhere, to start new factories in safe regions.

In order to do away with these evils, it is necessary for the State to step in and control industrial location. It is interesting to know the views of the memorandum in this regard. It suggests that with a view to secure a balanced regional development the State in India must not directly interfere with private initiative but should try to ensure that the object is achieved through voluntary means as has been done in Great Britain, U.S.A. and Italy. To remove and prevent congestion, however, the Government will have to interfere directly. They must rebuild large towns and should allow a factory to be set up at a new place only after proper arrangements have been made for the residential accommodation of workers and roads etc. have been constructed. The direct control of the State will also be needed to prevent excessive concentration of industry and population in vulnerable areas.

The memorandum discusses in brief the cases of cotton textile, jute, silk, woollen, iron and steel, general engineering, sugar, match, paper, leather,

chemical, glass, soap, cement and electric power industries one by one. The locational trends in each of them during 1921-1939 have been carefully traced and useful suggestions have been made about future. The tendency towards dispersal in the cotton textile and iron and steel industries is welcomed. It records that the industrial expansion has been much greater in the Indian States than in British India during 1921-1939 in relation to the growth of population. "If the increase in factory employment can be taken as an index of industrial expansion, nearly 33 per cent. of the total expansion between 1921 and 1939 took place in the Indian States." (P. 7) This has been ascribed "partly to the various inducements offered by the State Governments and partly to the relatively low levels of rents and wages there." (P.7). It is surprising, however, that no importance has been attached to the several natural advantages possessed by these regions, which must attract industries. Is there sufficient data available at present to enable one to definitely declare that the shift of enterprise to the Indian States is not due to geographical and natural advantages and must be totally ascribed to other factors ?

We welcome this ably written and timely memorandum. It has already influenced the Government of India who in the statement of their industrial policy have made pointed reference to the problem of controlling the industrial location; and we hope it will arouse interest and discussions in non-official quarters as well. It is one of the most important publications that have recently come out in this country. Within a small compass of bare 100 pages, it gives an amazingly large volume of solid information and reveals a deep study of a very vital problem. The statistical tables which have been given in plenty are particularly valuable ; and so are the two appendices.

THE LEAGUE OF NATIONS RECONSTRUCTION SCHEMES IN THE INTER-WAR PERIOD. Published by the League of Nations, Geneva. Pp. 171. 1945. Price 5 shillings.

This publication contains an authoritative account of the financial reconstruction policy pursued by the League of Nations during the inter-war period; and has been written by Mr. Royall Tyler who was actively associated with the execution of the said policy in its various stages.

Many of the European countries emerged from the World War I financially shattered; and it was not possible to put them once again on road to their economic prosperity, and ensure freedom of international movement of persons, goods and capital leading to world prosperity, without stepping up production. The latter necessitated finances; and it was to provide finances from other countries that the League of Nations made the attempts that constitute the subject-matter of this book. The first scheme that was tried was the ter Meulen (International Credits) Scheme which required the assignment to an international commission (the Financial Committee) of revenues sufficient to secure the service of the bonds to be issued, and in the event of failure on the part of the borrowing Government to meet its obligations, the actual administration of the assigned revenues by the commission. This scheme which was adopted on November 28, 1920, was abandoned in May, 1922, and its organizer, Sir Dummond Drummond-Fraser resigned as it was found unworkable. Too much international control in the internal affairs of the borrowing country and the reluctance of the poorer States entitled to reparations to relinquish their claims were its grave-diggers. The League then pursued another policy whereby each country was treated as an individual case. The general principles were, however, the same. The League was to float a public loan for the benefit of the borrower and the latter had to follow a prescribed programme of reform. A Commissioner-General

was to be appointed for controlling loan-proceeds and in case of default, the Government concerned was to give further revenues till the deficit was made up. Under this scheme, help was given to Austria and Hungary, Greece, Bulgaria, Danzig and Estonia. This scheme appeared to succeed at the outset when the need for financial help was great. But as financial conditions improved and capital began to flow more freely on private account, and indeed the loan proceeds were exhausted, defaults began to be made. Further revenues were not given by the borrowing Governments and the Commissioner-General's position deteriorated into that of a "permanent rapporteur." Mr. Tyler narrates the whole story in a very lucid and clear manner, critically examines the reasons of the failure of the schemes, and dispassionately tries to evaluate its real achievements.

The reader of the book is liable to be left with a sense of desolation at the manner in which autarky and economic nationalism have been running riot in international relationship which defy the application of international economic remedies. The achievement of the League of Nations in the direction of financial reconstruction were, to be frank, extremely limited. This scheme, though taken advantage of by the countries concerned initially, only helped to fan hatred and animosities later, and the complaints on the ground that these schemes were meant to exercise undue control on internal economic matters became serious. It appears that the scheme lacked a sincere desire on the part of leading nations to help the nations in need. In particular, the programme of reform that was followed was not on all fours with the economic interest of the nations *in the then existing conditions*. It was an imposition of certain empty economic ideals which served the interests of the leading powers and which were couched in imposing language, on the backward States. These ideas could be realized only if the leading powers themselves sincerely wanted to follow them and were willing to let the backward countries catch up the arrears and come to the stage when they could take part in mutual give and take without injuring themselves. This publication clearly shows that the leading powers did not have that sincerity and desire.

We hope the book will provide useful guidance to those who will be trying to solve the problem of financial reconstruction once again in the immediate future. The publication of the book at this juncture is most timely; and its authoritative character and the wealth of information it contains considerably add to its value. We may however observe that so long as there is no change of heart on the part of the leading powers, the schemes that might be tried might be alternative to the one pursued in the inter-war period but they will all belong to the same plain; and unless they rise to a higher plain of international morality, they will not be more than an eyewash.

BOOKS RECEIVED

AGRICULTURAL STATISTICS OF THE (BRITISH) PUNJAB 1940-41 TO 1943-44, by Gulshan Rai. Published by the Board of Economic Inquiry, Lahore. 1945. Pp. 30. Price 6as.

(To be reviewed)

AMERICA'S ROLE IN THE WORLD ECONOMY, by Aloen H. Hansen. Published by George Allen & Unwin, Ltd., London. 1945. Pp. 197. Price 8sh. 6d.

(The author of this beautifully got up book believes that the world prosperity and world stability depend in no small measure upon (a) the achievement of full employment within the United States, and (b) the active and whole-hearted co-operation of the United States in the formation and development of international economic organizations designed to insure the workability of a new world order. (p. 8) He, therefore, pleads against isolationism vigorously, persuasively and convincingly. He explains the significance of International Bank, International Monetary Fund, U.N.R.R.A., F.A.O. and I.L.O. and discusses how will they benefit U.S.A. His suggestions for the formation of an international trade authority and international commodity corporations are sure to receive extensive support. The book has been written for general readers and is extremely lucid, clear and simple even when the topics handled were intricate. It is gratifying to note that the author's attitude towards backward countries is sympathetic and intelligent, and he has succeeded in establishing the thesis that the world prosperity cannot be achieved without letting and helping such countries to rise and develop.)

BOMBAY COTTON ANNUAL 1943-44, compiled by M. C. Parikh. Published by The East India Cotton Association, Ltd., Bombay. Pp. 242. Price Rs. 3.

(Reviewed in this issue)

COST OF PRODUCTION OF CROPS ON A CANAL-IRRIGATED ESTATE IN THE PUNJAB 1935-36 TO 1939-40, by Labh Singh and Ajaib Singh. Published by the Board of Economic Inquiry, Punjab, Lahore. 1944. Pp. 57. Price Re. 1-8as.

(To be reviewed)

ECONOMIC HISTORY OF THE BOMBAY DECCAN AND KARNATAK (1818-1868) by R. D. Choksey. Published by Deccan Book Stall, Poona (4). 1945. Pp. 369. Price Rs. 8.

(To be reviewed)

ECONOMIC ASPECTS OF ANIMAL HUSBANDRY IN HISSAR—A FAMINE AREA OF THE PUNJAB, by Roshan Lal Anand. Published by the Board of Economic Inquiry, Lahore. 1945. Pp. 69. Price 8as.

(To be reviewed)

PRICE CONTROL AND RATIONING by R. N. Bhargava. Published by Kitabistan, Allahabad. 1945. Pp. 124. Price Rs. 4-8-0.

(To be reviewed)

Exodus from Travancore to Malabar Jungles, by K.G. Sivaswamy and other. Published by Servindia Kerala Relief Centre, Coimbatore. 1945. Pp. 39 iii. Price Re. 1.

(*To be reviewed*)

Economics, A Tool of Democracy, by Hedley Shepherd. Published by Messrs. Kitab Mahal, Allahabad. Pp. 46. Price Re.1.

(*Reviewed in this issue.*)

Evolution of French Democracy, by Y. Petit-Dutaillis and M. Mulla. Published by Thacker and Co. Ltd., Bombay. 1946. Pp. 101. Price Rs. 3.

(*To be reviewed*)

Food Famine and Nutritional Diseases in Travancore (1943-44), by K. G. Sivaswamy and others. Published by the Author, Madras. 1945. Pp. 176, 36, 42. Price Rs. 5.

(*To be reviewed*)

A Food Plan for India. Issued under the auspices of the Royal Institute of International Affairs with a foreword by Professor A.V. Hill and published by the Oxford University Press, London. 1945. Pp. 62. Price Rs.2.

(The plan under review is the result of the concern of certain gentlemen over India's deteriorating food situation, who want to remain anonymous. In the words of Professor Hill, "they have a very special knowledge of the subject" and "they have treated the whole question as a strictly practical and administrative one." (p.vi) The 1953 objective fixed by them is an increase in the food production of India by 14 million tons on the assumption of the present rate of increase in population and a 10% increase in average diet. This is to be accomplished by the use of fertilizers, improvement of water supplies, provision of better seeds, and malaria control. They envisage the creation of a team of village workers, out of demobilised soldiers, who will provide instruction, distribution and collection services in the villages. The scheme seems to suffer from two main defects. Firstly, its approach is only quantitative; and secondly, the demobs cannot inspire confidence and evoke co-operation from the villagers in the existing political set-up. But we agree with Professor Hill that "something essentially similar to it in form" (p. vii) will have to be done if Indians are not to starve. The publication contains important and valuable data and information. We recommend it strongly to our readers.)

Family Budgets, 1939-40 of Thirteen Cultivators in the Punjab, by Labh Singh and Ajaib Singh. Published by the Board of Economic Inquiry, Punjab, Lahore. 1945. Pp. 63. Price 12as.

(*To be reviewed*)

Freedom under Planning, by Barbara Wootton. Published by George Allen & Unwin, Ltd., London. 1945. Pp. 163. Price 6s.

(*To be reviewed*)

Full Employment and Free Trade, by Michael Polanyi. Published by Cambridge University Press, Cambridge. 1945. Pp. 155. Price 8sh. 6d.

(*To be reviewed*)

INTERNATIONAL INVESTMENT AND DOMESTIC WELFARE, by Norman S. Buchanan. Published by Henry Holt and Co., New York. 1945. Pp. 249. Price not mentioned.

(*Reviewed in this issue*)

LEGISLATIVE COUNCIL OF INDIA, 1854-61, by Bool Chand. Published by Minerva Book Shop, Lahore. Pp. 84. Price Rs. 2-8as.

(*To be reviewed*)

THE MODERN WORLD : A POLITICAL STUDY SYLLABUS, by Yusuf Meherally. Published by the Padma Publications, Ltd., Bombay. 1945. Pp. 184. Price Rs. 4.

(This book contains the names of the books that may be read mainly on "international affairs, political and social theory and the great progressive movements that are seeking to reshape the world." The range covered is amazingly extensive: books relating to India, Japan, China, Egypt, Afghanistan. Socialism, labour movement, youth movement, peasant movements, etc., are all included. The books mentioned on each subject are few but they have been judiciously picked up. We would, however, suggest that the author should make the survey more exhaustive in the second edition so as to include many good books on the various subjects that had to be left out for reasons of space in the present one. It is a useful publication and we recommend it strongly.)

MY EXPERIENCE IN CHINA, by M.N. Roy. Published by Renaissance Publishers, Calcutta. Pp. 77. Price Re. 1-8as.

(*To be reviewed*)

PERIOD OF TRANSITION (1818-1826), by R.D. Choksey. Published by Deccan Book Stall, Poona (4). 1945. Pp. 243. Price Rs. 6.

(*To be reviewed*)

PROBLEMS OF SUGAR INDUSTRY IN INDIA, by M.P. Gandhi. Published by the Author, Bombay. 1945. Pp. 375. Price Rs. 12.

(*Reviewed in this issue*)

RECONSTRUCTION OF LIFE AND POLITY IN KATHIAWAR STATES, by Kevalram C. Oza. Published by the Author, Rajkot. 1946. Pp. 95. Price Rs.5-12as.

(*To be reviewed*)

SCHOOL CONSOLIDATION AND STATE AID IN ILLINOIS, by Leon H. Weaver. Published by the University of Illinois Press, Illinois. 1944. Pp. 115. Price $1.50.

(*Reviewed in this issue*)

SILK INDUSTRY—SCOPE FOR FURTHER DEVELOPMENT IN INDIA EXAMINED, by E.V.S. Maniam. Published by Bureau of Economic Research, Cawnpore. Pp. 28. Price not given.

(*Reviewed in this issue*)

STOCK EXCHANGE IN INDIA, by K. L. Garg. Published by N. R. Agarwal & Co., Agra. 1946. Pp. 219. Price Rs.8.

(*To be reviewed*)

TOWARD STABILITY OF WORLD ECONOMY, by Oscar Piest. Published by Julian Musner, Inc., New York. 1945. Pp. 61. Price $ 1.00.

(Reviewed in this issue)

WHAT OF THE SO-CALLED CRIMINAL IN POST-WAR INDIA? by R.G. Sarien. Published by Minerva Bookshop, Lahore. 1945. Pp. 50. Price Re. 1.

(Prof. Sarien has written this booklet to stimulate thought on the part of our social reformers, anthropologists, scholars, etc., so that they may divert some of their energies at least to this question (the question of the criminal tribes) and bring forth more literature on the subject, which should not only be academic but full of concrete suggestions for bettering the lot of more than 2 crores and 51 lakhs of our population. The book is of absorbing interest and focusses attention on a very vital problem that deserves serious thought. The author has done the right thing in bringing this neglected but important subject to the forefront. But the book is only introductory and we would suggest to the author to bring out a detailed and exhaustive work on the subject.)

WORKS ORGANISATION, MANAGEMENT AND COST CONTROL, by Jamshed R. Batliboi. Published by N.M. Tripathi, Ltd., Bombay. 1945. Pp. 539. Price Rs. 11-4 as.

(To be reviewed)

100% MONEY, by Irving Fisher. Published by the City Printing Company, New Haven. 1945. Pp. 257. Price $ 1.00.

(To be reviewed)

ARTICLES IN RECENT PERIODICALS

The Economic Journal

June-September, 1945—Anglo-American Trade Prospects, *by L. Rasminsky;* An Aspect of Industrial Reorganisation, *by G. C. Allen;* Productivity of Labour in the Cotton Industry, *by L. Rostas;* Efficiency and Organisation of the British Coal Industry, *by A. Beacham;* Sir Isaac Newton and the Currency, *by G. Findlay Shirras and J.H. Craig;* Company Law, 1844 and Today, *by M. S. Rix.*

Economica

August, 1945—Profit: Accounting Theory and Economics, *by Harry Norris;* Notes on N.W. Senior's Political Economy, *by John Stuart Mill;* Trinity College, Dublin, and the Theory of Value, 1832-1863, *by R.D. Black;* Professor Hayek's Philosophy, *by A. H. Murray;* Capital Requirements in Progressive Economics, *by Ernest H. Stern;* A Note on the Post-War Industrialization of "Backward" Countries and Centralist Planning, *by Yuan-Li Wu.*

Journal of the Royal Statistical Society

Vol. CVII. Part III-IV.—The Wartime Social Survey, *by Kathleen Box and Geoffrey Thomas;* Methods of Listener Research Employed by the British Broadcasting Corporation, *by R.J.E. Silvey;* Annual Sunspot Numbers, *by J.L.Spencer Smith;* The Distribution of Wars in Time, *by Lewis F. Richardson;* The Concept of Net Volume of Output with Special Reference to Irish Data, by R.C. *Geary.*

Vol. CVIII. Part I-II.—Cricket Scores and some Skew Correlation Distributions (An Arithmetical Study), *by Sir William Elderton;* Cricket Scores and Geometrical Progression, *by George H. Wood;* An Enquiry into the Assessing of Salvage Awards, *by C.T. Sutton;* On the Analysis of Oscillatory Time Series, *by M.G. Kendall;* The Structure of British Industry *by H. Leak and A. Maizels;* On a Method of Studying Time Series Based on their Internal Correlations, *by G. Udny Yule.*

The American Economic Review

September, 1945—The Use of Knowledge in Society, *by F.A.Hayek;* "Model-Building" and Fiscal Policy, *by A.G. Hart;* Corporate Retained Earnings and Cyclical Fluctuations, *by S.P. Dobrovolsky;* The Federal Trade Commission and "Unfair Competition" in Foreign Trade, *by R.S. Landry;* Some Problems in the Development of the Communications Industry, *by Carrie Glasser;* A Graphical Analysis of Personal Income Distribution in the United States *by M.J.Bowman;* The Financing of Employment-Maintaining Expenditures, *by A.N. McLeod;* A Formula for Social Insurance Financing, *by S.J. Mushkin and Anne de Scitovsky;* The Field of Labour Economics. A Review, *by C.R. Daugherty;* Revision or Reaffirmation of Marxism? A rejoinder, *by Raya Durayevskaya;* Pragmatism and Economic Theory: Rebuttal, *by Dudley Dillard;* The Effect of Interest Rate Increases on the Banking System, *by G.W. Coleman.*

The Journal of Political Economy

September, 1945—The Physiocrats and Say's Law of Markets. I. *by Joseph J. Spengler;* The Beveridge : Program : An Unsympathetic Interpretation, *by Henry C. Simons;* Post-World War I, Price Movements and Price Policy, *by Eugene Rotwein;* The Compensatory Theory of Public Works Expenditure, by Clay J. *Anderson.*

The Journal of Land and Public Utility Economics

August, 1945—Railroad Land Grant Rates, 1850-1945, *by David M. Ellis;* A National Fuel Policy: III—Bituminous Coal : Post-war Prospects, *by Robert M. Weidenhammer :* Post-war Farm Land Values, *by Mark M. Regan and Fred A. Clarenbach ;* Fixed Dividends for all Public Utility Stock, *by Arthur Peter Becker :* Factors Affecting Value of Land and Water in Irrigated Lands, *by H.E. Selby;* Farming Opportunities for Veterans, *by Hugh H. Wooten ;* Garden Cities and the Metropolis, *by Lloyd Rodwin.*

Political Science Quarterly

September, 1945—The Organization of the San Francisco Conference, *by Grayson Kirk and Lawrence H. Chamberlain;* The Prospects for Chinese Democracy, *by Chi-Yun Chang;* World Integration and Education, *by Thomas Woody.*

The South African Journal of Economics

September, 1945—Economic Incentives in the Post-War World, *by Prof. C.S. Richards;* The Economic Development of the Cape Under Van Riebeek —Part III. *by H.M. Robertson :* Full Employment and the Future of Industry, *by Prof W. H. Hutt ;* Industrial Possibilities and Potentialities of Northern Rhodesia, *by Prof. C. S. Richards;* The Expansion of Manufacturing Industry in the Union, *by W.J. Busschau.*

International Labour Review

July, 1945—Housing in the United States : Problems and Policy, *by Catherine Bauer;* The Employment Situation in France; The Organisation of Salaried Employees in Sweden, *by Otto Nordenskiold.*

August-September, 1945—The Industrial Committees of the International Labour Organization; Social Policy in Occupied Czechoslovakia, 1938-1944 *by J.W. Bruegel;* Wartime Developments in the Indian Textile Industry; Family Allowances in France.

October, 1945—Wartime Methods of Labour-Management Consultation in the United States and Great Britain; Migration of Indigenous Workers in the Belgian Congo, *by Pierre de Briey;* The Planning of Public Investment in Australia, *by Richard I. Downing.*

Journal of Scientific and Industrial Research

September, 1945—Research Service for Minor Industries; Commercial Valuation of Patents, *by J. N. Sen Gupta;* The Utilization of Jute Waste, *by C. R. Nodder.*

October, 1945—Industrial and Economic Activity—Policy and Progress; Food Yeast, Its Importance and Manufacture, *by P.N. Vohra and Bashir Ahmad:* Coal in India, *by S.K. Roy;* Radio Industry, with special reference to Broadcast Receivers and Vacuum Tubes, *by V.V.L. Rao.*

November, 1945—An Economic Minerals Bureau for India; The National Institute of Sciences of India; Manufacture of Yeast in India—Some Scientific Problems, *by P.N. Vohra and Bashir Ahmad;* Manufacture of Dextrine for Adhesives, *by A. Joga Rao.*

December, 1945—Synthetic Fibres in Relation to their Competitiveness with Cotton, *by Nazir Ahmad;* Coal in India, *by S.K. Roy;* National Patent Planning Commission, U.S.A., *by R.B. Pai:* Scientific Research on Indian Railways, *by D. R. Malhotra.*

Indian Farming

September, 1945—A Tree Plantation Plan for Northern India—II, *by M.S. Randhava;* Production of More Rice per Acre in the United Provinces, *by A.K.Mitra and P.S.Gupta;* New Strains for Old Crops in Bombay—II, *by B.S. Kadam;* Selection, Preparation and Management of Fish Nurseries, *by S.L.Hora;* Manurial Value of Town Compost, *by C.N. Acharya;* Locust as Food and Manure *by S. Das;* Nomenclature of Different Breeds and Types of Domesticated Livestock in India.

October, 1945—Social Relations between Fishery Officers and the Fishing Community, *by J. Hornell ;* Vegetable Extension Work in the Central Provinces, *by V.G. Vaidya;* Establishment of Fuel Plantations, *by K. B. Nizamuddin Hyder;* Bone Industry in India, *by Israrul Haq;* Improvement of Wells in Sandy Strata of North Bihar, *by Ganesh Lall;* Control of Spotted Bollwork of Cotton in Sind, *by G.R.Sharma and L.R. Mahindra;* Madras Sunn Hemp Scheme, *by M. Satyanarayana.*

November, 1945—Casein and its Manufacture, *by M.C. Rangaswamy;* Cotton Bags for Storing Sugar, *by D.L.Sen and Nazir Ahmad;* Goats in Indian Economy *by Israrul Haq;* Minimizing the Effect of Frost on Oilseeds in Sind *by R.T. Mirchandani.*

Sankhya

August, 1945—On Grassmann and Differential Rings and their relations to the theory of multiple Integrals, *by S.S. Chern;* On the Generalisation of Markoff's Theorem and Tests of Linear Hypotheses by *C. R. Rai;* Markoff's Theorem with Linear Restrictions on Parameters *by C.R. Rao;* On the Accuracy of the Different Approximations to the Ll-Distribution, *by Miss A. George;* A Note on the distribution of Chi-Squares, *by A. Bhattacharya;* Report on the Bihar Crop Survey; Rabi Season 1943-44 *by P.C. Mahalanobis.*

PROCEEDINGS OF

THE TWENTY-EIGHTH ANNUAL SESSION

OF THE

INDIAN ECONOMIC CONFERENCE

Held at Lahore on Dec. 30—31, 1945, *and Jan.* 1, 1946

INAUGURAL ADDRESS

BY

SIR MANOHAR LAL

I value this opportunity to be so prominently associated with this Conference and I am grateful to your organisers for according me this privilege. Fortunately too my task is not difficult, much learning has preceded me in the address of Dr. Lucas, we are assured of firm guidance and true scientific light in the authoritative pronouncement that is to follow.

The world to-day is fired with high ambitions, it is also torn with terrible dissensions. Indian aspirations have in the circumstances assumed a definite and unquestioned shape as never before. India's heart throbs with singular unison, and her children speak to-day, with undeniable insistence, in a voice that betokens the utmost determination.

May I venture to say on your behalf as economists that we yield to no section of thought in the country in the demand for 'freedom'! I, certainly, and with every emphasis, proclaim my faith in our country's 'Independence.' Before that 'ideal' all thought must bend, to that end all our efforts must be directed. We assert our right to it, but we must win it for ourselves and cannot seek it as a gift from outside. Life, however, is manysided and the road to the achievement of high ideals must be through many paths, and humanity cannot be perfected, man as a whole cannot rise, howsoever he may be situated, unless he sees his path clearly and treads it with steady devotion. Let us, each one of us, apply ourselves to our task that lies nearest our hand, was a great thinker's advice, and Carlyle's words find an echo in all significant teaching, religious and profane. Such is the crystallised lesson of that high compendium of philosophy and morals, the Bhagvata Gita. Bacon put it in his own inimitable style in words that can be put away only at the peril of life : "I hold every man a debtor to his profession, from which as men of course do seek to receive countenance and profit, so ought they *of duty* to endeavour themselves by way of amends to be a help and ornament thereunto." The wise and paramount doctrine cannot be ignored, otherwise only sterility and frustration can ensue, and thereafter despair because of inevitable misery and certain failure.

Your Conference is an index and a proof of the fact that

while your heart is sound, you are mindful of the special task, you are conscious of the immediate duty that lies on you in the pursuit of high national endeavour.

In India we have been saved the actual ravages of war, whatever the cost and the sacrifice, there has been no devastation such as confronts the world today. Thus has it been summed up by one making a broad survey: "The war just ended has given way to so forbidding, so unrelieved a spectacle of world-wide distress and adversity, that there is no satisfaction to be found in any human heart over the achievement of what has been semi-officially and pompously called final victory. There is nothing to be seen on the wide human horizon except misery, hardship and broken-heartedness." Our own problems, in all conscience, are many, their solution is beset with a thousand difficulties, but when the tale is unfolded, and we have to render our account at the bar of history, poor as we are and helpless as we may appear, we shall have to face the question—What in the pattern that is being woven in God's new world is the part India has played? The world cannot be allowed to collapse. What thought brought we to her aid in offering succour, though bowed in grief and charged with poverty, what widow's mite did we place on the altar of struggling man? Prime Minister Attlee used these words in his memorable broadcast of September 3rd: "We have seen the garnered fruit of years of toil destroyed and dispersed in a few years. Unless we can set on the other side again in the progress of the human spirit and a growth in the new conception of human society, those losses will have been in vain." And in language of striking eloquence, sounding the depths of man's relationship with God, Attlee added: "As we emerge from six years of waste and as we gather the fruits of victory at our bitter leisure, we shall be encouraged to reflect that there is no more merciful manifestation of the love of God than his 'denial to the victor of the spoils' or at any rate of the enjoyment thereof."

But I am straying from my appointed task and presuming unduly on your indulgence. Among questions that engage our attention most is the need of planned economic effort. A mass of valuable literature has grown up on the subject, starting with what is known as the Bombay 'Plan', and followed by careful proposals for post-war reconstruction in every province in India. These projects for action embrace nearly every sphere of life, these plans also embody standards to be kept in view in judging their real worth. In several vital directions life is to be transformed; while life is to be made fuller and richer man is to stand in a changed relationship to his fellow-men and to the general administrative machinery that holds society together. The new society

is to realise the higher ideals of equality and justice. I cannot enter on these speculations even if I possessed the necessary competence. I must content myself with this bare reference Ruskin remarked once that the political economist was endowed with only one eye, and that was in the mud. How unfair the charge is manifest by all the emphasis you lay on 'welfare' in recent study, and your analysis of the content of what is called wealth. The economist of today can be charged, if with any fault, with having converted himself into a pure idealist. Apart from the shackles of his technique, and the artificialities of his scientific expression, he is wrapt up in the philosophy of changing the face of the world. As a great deal of this line of thought bears closely on finance, I am sore tempted to deviate into compelling considerations, but I must resist the temptation.

Of the many other problems that engross our attention at present are questions relating to what are called Sterling Balances and their due availability to satisfy India's own needs for firm economic building our food problem and the associated problem of population. The extreme inadequacy of our food resources has always been the subject of keen comment ever since economic thought began seriously to emerge in the country, and mal-adjustments caused by the war have added intensity to the direness of the situation. The whole question, besides, is an aspect of the general study of India's poverty. It represents also an inevitable facet of the economics of our population. These large issues, with the problem of 'Controls' constitute the main stream of factual economic thinking in India today. All other active thought centres round these, is in fact the offspring of these vital and all engrossing questions. They form your worthy quest, into these you probe, and it is no vain observation to make that on the results of your inquiry, on the fruits of your investigation and on the exactness of your answer depends the strength of India and therefore are contingent the realities of her freedom. The world has suffered immense disrepair, it is falling sadly about us, though there are countries such as the mighty U.S.A. where power sits enthroned, and the Soviet Republic where inscrutable forces are already at work successfully regaining lost ground and building fresh strength.

India has her own immediate tasks, but in such a world, distracted and half-ruined, she cannot withhold her hand of fellowship, and in the disintegrated East her responsibility and her duty is even more manifest. The teaching of economics, and the leadership of economists, at all times of high importance, is of special value today. On poverty no worth-while polity can be raised, economic strength is the very basis of national strength.

> Standing in this place, but on a different occasion, I ventured to say a year ago—"Independence is unquestionably an ideal that must be steadfastly pursued; as a national goal it cannot be put aside even for a moment, for in that possession lies life, otherwise there is death and darkness. I added that while ideals are to be fought for, even more they require preparing for. In this essential preparation for our high destiny the economist has the most valuable part to play. The highest is not attainable without complete freedom in our own house, that is the verdict of competent thinkers, that is also the seer's vision, a truly national government is essential for full national advance. No one need quarrel with this, no one can or does dispute its essential validity, but that makes our duty to prepare for this supreme gift all the more instant and paramout."

I have great pleasure in inaugurating this Conference. May your deliberations be attended with the highest measure of success, may your thoughts light the way to the achievement of India's true destiny! You are rich in well-directed talent, you stand in the very vanguard of progressive thinking. May your rewards be rich according to your high merit. May you win true honour in your service to our Motherland!

ADDRESS OF WELCOME

BY

REV. DR. E. D. LUCAS, M.A., PH.D., D.D.
Chairman, Reception Committee

MR. PRESIDENT, LADIES AND GENTLEMEN,

As Chairman of the Reception Committee, I have the pleasant task of welcoming you,—the members of the 28th Session of the All-India Economic Conference,—to Lahore. As one of the older residents of this great city, I think I can justly claim that Lahore is a genuinely hospitable and warmhearted centre for the entertainment of such a conference. This post-war period, although nominally one of peace, harbours within it even greater stresses and strains than the war years which have just passed, and which served to cement temporarily the United Nations into a solid bloc. The economic problems of India, interlocked as they are with social, moral, communal and political problems, are baffling beyond description. And while we must for our own purposes disentangle the economic threads for separate treatment, we must never forget the background. We are to consider in these three days four topics of primary importance. These are Food, Currency, Transportation and Planning. They touch upon the intimate welfare of every citizen of India. We cannot discuss the food problems without attention to the growing population, and to the problems connected with the ownership, control and taxation of land. India is probably the only large country in the world which devotes three-fourths of its sown area to food crops alone, and yet, notwithstanding this, the food supply is not keeping pace with the growth of population. Late marriages, more careers for women in public life as well as positive methods of limiting the birth rate are all needed. Our currency problems are interwoven with such matters as the disposal of the sterling balances; the recently negotiated financial arrangements between Britain and America, the Bretton Woods Currency Stabilization plans, the International Bank and problems of increasing world output and international trade. Railway rates and policy influence the proper distribution of agricultural and industrial output as well as the localization of industries. Any attempt by the State to throttle the growth of the means of transportation, unless involving cut-throat competition, will be harmful to India,

for she needs an enormous increase in transport facilities. The shameful overcrowding of railways and lorries, the difficulties and delays in the shipment of goods, are due as much to the inadequacy of our entire transportation system as to war conditions. Perhaps the problem that is foremost in the minds of many is that of rapid industrial expansion, which is closely associated with the attempt to provide a higher living standard for the masses of the people.

There are two other questions not directly related to the above four, to which I should like to draw your attention for a moment, namely : one, the problem of social change; and two, the conflicting world ideologies connected with capitalism and collectivism.

In India, social relationships involving age-old customs with semi-religious sanctions, have been of equal importance, if not more, to the average person than economic or political relationships. There are still a host of people who would probably starve themselves rather than eat what are considered unacceptable foodstuffs. Discussions which ignore such facts have an air of unreality about them.

The second problem is that of the two conflicting ideologies now ruling the world, namely, the perpetuation of private enterprise versus collective and state enterprise. The roots of this conflict reach down into the eternal conflict between freedom and law, which in proper interrelationships are both needed to assure the highest development of human personlity and of the social and political life of mankind. No one of mature years is unaware of the fact that much of so-called personal freedom or economic freedom to-day falls not far short of licence,—licence which harms both the individual and society. On the other hand, undue expansion of regulations, the hampering effects of purely restrictive laws. and the overgrowth of bureaucracies are equally undeniable facts and equally harmful. India to-day probably needs less of personal freedom and more of planning and regulation, or certainly more of regulated and planned competition.

In carrying out the impending economic reconstruction of India, Indian economists will be compelled to take sides in this battle of conflicting ideologies. For this reason I shall run over the main points in a remarkable discussion on this subject by Dr. Kar Polanyi in his recent book "Origins of Our Time."

Western society is a market society based on the economics of self-interest and as such is unnatural in the strictly empirical sense of being exceptional. Nineteenth century economists assumed that man in his economic activities sought for profit, that he chose the lesser for the greater effort and ex-

pected payment for labour, in other words that he was economically rational and that contrary behaviour was always due to compulsion. Thus nothing could be more normal than an economic system resting on markets and under the sole control of market prices and such a society appeared to be the goal of all progress. Whatever the moral rightness or wrongness of such a society its inevitability rested in immutable human traits.

Actually modern students of anthropology have proved that the exact opposite was true of primitive man. Also the history of trade and markets has been entirely different from that assumed by this nineteenth century school of thinkers. Economic historians have proved to us that the market has been the outcome of conscious and often violent intervention on the part of government, which imposed the market organisation on society for non-economic ends. The self-regulating market of the nineteenth century, unlike any of its predecessors, relied upon self-interest for its regulation. The great weakness of nineteenth century society was not that it was industrial but that it was a self-regulating market society. Industrial society will continue long after the memory of a self-adjusting market society will appear only as an utopian dream.

Yet the shifting of industrial society on to a new basis seems to many to be a desperate measure. They have a deep and genuine fear of the loss of freedom.

The problem of freedom runs on two levels, institutional and moral or religious. On the institutional level it is a matter of increased against diminished freedoms, and on the moral, doubts arise as to the very possibility of any freedom itself. A seemingly free market type of society creates self-destructive poisons of class exploitation, colonial imperialisms and international strife. The key to freedom must be found on the institutional level in a modern complex society. The comfortable classes which enjoy the freedom provided by leisure and security resist any compulsion to secure the more just distribution of income, leisure and security amongst all classes. Initially they must accept some restriction of their freedom in order that the level of freedom throughout the land may be raised. Such shifting, reshaping and enlarging of freedoms in reality offers no ground for the assertion that the new condition will be less free than the old—in fact, given time, the opposite will be true.

Yet there are freedoms, by-products of nineteenth century economy which we must highly cherish for their own sakes. Civic liberties, private enterprise and the wage system did favour moral freedom and independence of mind. We must try to maintain by all means in our power, these precious gifts inherited from

the market economy which has collapsed. This is the meaning of the present world effort to make peace and freedom secure and its success depends upon the establishment of an international world order. As to personal liberty it will exist only to the extent we deliberately create new safeguards for its maintenance and indeed, extension. In an established society the right to non-conformity must be firmly established. The individual must be allowed to follow his own conscience without fear of the powers that happen to be entrusted with administrative tasks in some fields of social life. Science and the arts should always be under the guardianship of the republic of letters. Compulsion should never be absolute but the objector should be offered a niche to which he may retire—a choice of a second best which lets him live his own life. Every move towards integration should thus be accompanied by an increase of freedom; moves toward planning should comprise the strengthening of the rights of the individual in society. The true answer to the threat of bureaucracy is the creation of spheres of arbitrary freedom protected by unbreakable rules, for however generously devolution is practised there will be strengthening of power at the centre and, therefore, danger to individual freedom.

Given the safeguarding of essential freedoms in a planned social and economic order, man's life may attain to heights as yet unreached and almost undreamed of.

Again I welcome you to Lahore and trust that our discussions and mutual exchange of views will be of great advantage to us and to India.

PRESIDENTIAL ADDRESS

Towards Progress in Economics

A Plea for Strengthening its Foundations and Broadening its Scope

BY

Professor D. G. Karve, M.A.,
Poona

The nineteenth century closed on a note of intellectual and moral complacence. In the field of thought as well as of action it seemed that the main lines of progress were finally laid down. Much advance, it was admitted, was needed to work out the special application of each principle, and it was also conceded that changing interpretation in the light of changing circumstances would be called for. Indeed the idea of progress would make such a periodical interpretation itself a normal activity. But the postulate of progress and the advocacy of individual freedom as a method of attaining it, seemed to be established as principles of civilized human thought in all walks of life. Of course the irrepressible questioners and revolutionaries could not be silenced. They were, however, relegated to the class of cranks and romantics, if not of social pests.

The twentieth century which opened in the rosy prospect of peaceful progress induced by the feeling of complacence with which the old century had closed has not, however, been destined so far to record a story either of self-satisfaction or of constructive human achievement. Problems of internal harmony among the several classes in the advanced nations, those of inter-Imperial relations among the paramount powers and their subject territories, and finally those of relentless jealousies among the Imperial and would-be Imperial powers strained to the limit all the feelings of complacent faith in the efficacy of the accepted doctrines of normal human relationship. While on the one hand, physical science was making breath-taking, almost miraculous, discoveries, the appropriate training of the human will and emotions, by which these could be used for enriching the happiness of humanity, was found to be sadly deficient. Even before the actual commencement of the First World War it was obvious that the problem of inequality among classes and among nations could not be solved by an appeal to the established

principles of the social science. A new heartsearching had already made itself manifest among the social scientists when the first shot was fired in the war of 1914.

That a semi-dynastic conflict in an obscure part of the European continent gradually engulfed the whole of the civilised world in its far-reaching and disruptive effects did not surprise many a shrewd observer of the social and political trends of the period. The technological, intellectual and moral experience of the period of the First World War and of the decade following its termination convinced social thinkers as a class that a deeper and wider analysis of human conduct and of social institutions was needed if the potent forces of physical science now available to humanity were to be trained and guided into peaceful and creative channels. The inter-war years have thus been consciously, almost unavoidably, a period of loud thinking on the part of social scientists. What was a feeling of uneasiness at the end of the First World War has, in spite of the virtuous self-analysis of the inter-war period, now developed into a feeling of virtual guilt. Who that has witnessed the irrationalities and the inhumanities of the last few years, traces of which are still visible on all sides, can escape either a feeling of guilt for the past or of fateful responsibility for the future ?

I have been referring here to social scientists generally and not to the economists in particular. This is due to my firm faith, about which I hope to say something in detail in a later part of my speech, that economic science, whatever an individual economist may profess or protest, can never in fact be dissociated from the social philosophy of the times. The nineteenth century economics was obviously a branch of that school of natural freedom and human progress which in politics built the edifice of ballot-box democracy and in philosophy led to the popularity of utilitarianism. The tenets of the old liberal school of economists are so well-known that it is not necessary to refer to them here. Suffice it to say that in their general scheme of naturalist economy they, with the prominent exception of Ricardo, were always ready to incorporate what appeared to them as necessary exceptions enjoined by common-sense; this they did not consider to be less a part of nature than the intellectual flights based on assumed premises. In Adam Smith, and in John Stuart Mill we come across these deviations into reality which gave their works a peculiar air of conviction and which earned for them almost immediate recognition from men of action. Besides the commonsense which is such a charming and relieving feature of their writings, they had in abundant measure a genuine faith in the validity and practical beneficence of their theories which provoked the usual amount of criticism, but which in the end

succeeded in winning for them a friendly hearing and a not unwilling following.

All thought, especially all social thought, is provoked by the challenge of circumstances. As the upheavals of the late eighteenth century subsided into the new world of mechanical industry, national power and liberal government, the creed of the economists adjusted itself to the changing circumstances of time and place. As a result of normal growth among the West European powers a common social pattern seemed to have been developed towards the end of the nineteenth century. The integration of the main body of liberal economic thought was the natural counterpart of the world of economic facts in which the exponents of the theory had their being. The disillusionments, which the twentieth century brought with it, were perhaps too sudden for a large number of economists, brought up on the undeclared yet devoutly cherished notion that all that had to be said about the fundamentals of economics had already been said by the great masters, and what remained for their twentieth century successors was to refine and to elaborate these, while sparing an occasional thought for the too obtrusive among the exceptions.

It is perhaps true that being too near a period is an obstacle to its proper understanding. In the face, however, of the challenge thrown up by the tragic and bewildering experiences of the last three decades, the paradoxes and the theoretical, niceties with which a large number of economists are delighting themselves do appear to be a flagrant case of escapism, which would be very interesting if it were not for the serious consequences to which they lead. At a time when huge engines of oppression are built on the foundation of unreason we are told to assume that economics is a science of rational human behaviour. When the integrated personality of the citizens of modern organised states is unmistakably reflected in their individual and social behaviour we are asked to study 'economic behaviour' in isolation from all other aspects of life. When the constantly changing environment of our business life is impelling people to seek advice from the Doctors of Economics we are admonished not to give advice lest we prove unworthy of our academic robes. When not one of the basic assumptions of the prevalent economic doctrine is free from serious challenge, when economic problems of the highest magnitude call for mobilisation of all the wisdom that is available, and when a new international order based on a legitimate integration of national modes of life appears to be the only conceivable barrier to the disintegrating forces of armed nationalism, for the economists to sit back and weave their theories and draw their graphs on assumed conditions would be the limit of fruitless academic isolationism.

The recent war, which was suddenly terminated on account of the new military situation created by the use of the Atomic Bomb, has roused a large number of economists out of the torpor of scientific abstraction and has brought them into closer contact with the realities of life. It is to be hoped that this wartime experience has done the theoretical economist lasting good and that he will not easily relapse into his accustomed negativism and fruitlessness. If economics is to be saved from such an ill-deserved fate we must all think out afresh the fundamentals of our science so as to make it more truthful and more serviceable than it has been in the recent past. In the hope of initiating discussion among fellow-economists on this all-important issue of a reinterpretation of the nature and scope of our special studies I propose to present a few relevant points for their earnest consideration.

A perusal of the works of some of the later day economists who enjoy the reputation of being advanced theorists, reveals, two marked tendencies : a desire to narrow down the scope of legitimate economic studies and a growing concentration within even this narrower field, on matters that can be reduced to exact measurement. If these tendencies are not the outcome of a genuine misconception of the real nature of economic behaviour they are, I suspect, the result of an inferiority complex. A contrast is consciously or unconsciously traced between the definiteness of the findings of the natural sciences and the lack of this quality in much of the work of the economists. Now it is doubtful whether the alleged exactness of the physical sciences is really so all-pervasive in their findings as is apparently assumed. Even in the so-called exact sciences there is a considerable field of uncertainty and tentativeness which yields only gradually to a double process of analytical as well as synthetical inquiry. Moreover, it will never do to forget that even the exact sciences had a past of great uncertainty and if only we persist in patiently studying all the significant parts of economic experience we also shall have a future of as great an exactness[1] as the nature of the subject matter would warrant.

The sense of inferiority or impatience is therefore not justifiable in the light of the history of the exact sciences themselves. But even in its most advanced form, it may be doubted whether economics will ever approach that degree of precision which advanced physical sciences now show in respect of their conclusions. As a biological specimen man may be distinguished from the rest of creation and all men may be described as individuals of one species of a bigger genus. But in their behaviour, especially social behaviour, men show such a bewildering variety of mixture of motives and values, not only among different

individuals and groups, but even among different manifestations of conduct of the same individual that the rigid isolation of the objective and the method on which depends the theoretical superstructure of a human science cannot be too trustfully assumed. The singling out of a particular motive and of a single appropriate method of expressing it in action can at best be a theoretical device, not a truth, either of theory or of practice. The only truth that we know is the complex behaviour of man, and while for purposes of intellectual speculation we may assume the non-existence of other than the selected motive, in fact the assumption must always be conceded as unproved, and therefore not a truth in the proper sense of the word.

The sub-divisions of social studies are thus a matter of speculative convenience and not of actual experience. If sufficient allowance is made for this basic limitation of what passes as higher theory we would be less stand-offish in our attitude towards the postulates of sister sciences. A claim of neutrality towards non-economic motivations is no more than a convenient pose and more often than not it is either not sustained till the end of an argument or is actually disregarded. If the object of our study is the economic behaviour of men living in society all that concerns either the causes, or the manifestations and effects of such behaviour must be considered as legitimately belonging to the proper field of study for the economist. Such an inclusive attitude towards the proper scope of economics might offend against the sense of neatness of some scholars, but if these are out to study all that there is of economic experience they ought to follow where their subject matter naturally leads them. In this pursuit they might frequently find themselves in unexpected company and all that they witness may not be as ordered or as systematic as they might wish it to be. But if they worship the truth they ought not to allow their sense of order and neatness to get the better of their preference for reality.

Equally noticeable, and no less regrettable, is the desire to exclude from serious economic study all aspects of economic behaviour about which 'scientific' i.e. logical demonstration is not possible. If this attitude of mind is honestly sustained throughout the work of economists, precious little would be left in the achievements of the most eminent among them that could be called scientific. Even in purely analytical[2] studies so much depends at every stage on the judgment of the observer and the reasoner that no statement coming from an economist can be considered as having any better than his own individual authority. Nobody, not even the 'purest' among economic theorists, will acquiesce in such a general surrender of all pretence to generalised truth. It is therefore wrong to set up an absolute stan-

dard of scientific demonstrability in economic propositions, especially those which concern the experience of large masses of people. Thus while considering the economic effects of equal distribution, to adopt the pose of scientific unconcern[3] on the ground that equal capacity for happiness is more an ethical value or an act of will than a demonstrable principle of science is to ride a hobby horse for more than it is worth.

In the face of the complexity of economic situations and of economic behaviour we cannot afford to be too selective about our material. The material is there offered to us by the economic experience and needs of our fellowmen, and we have to work on it with the help of such technique as is available. Because a particular aspect of economic experience does not fit in with a preconceived technique[4] it does not in fact cease to be important. It is not possible to lay down precise laws of causation over the entire field of economic activity. A large and significant field will always have to be covered by comparatively vague and cautious statements which suggest a causal relationship which practice alone can either confirm or refute. An economist ought not to shy at the prospect of offering what to him appear as reasonable explanations under the circumstances, though he must, in the best Marshallian style, always guard himself against a terminological inexactitude.

Notwithstanding the professions to the contrary, the limits of economic science are purely conventional. This is amply proved by economists of the scarcity school confining themselves in fact to the operations of the principle in the traditional fields of business e.g. the market, and the producer consumer relationship via exchange. So great is the weight exercised by tradition in this respect that two obvious developments of economic life have for the most part escaped incorporation into contemporary economic science. The development of state initiative and direction in matters of economic import is so steady and so voluminous even in the non-socialistic countries that any formulation of economic laws which is primarily based on individualistic assumptions has to be judged as seriously inadequate. Like the law of competition, of monopoly and of imperfect competition the time is more than ripe for outlining an economics for free, authoritarian and mixed societies. The elements of social demand, political coercion and administrative action that characterise a collectivist society cannot be bundled into the category of imperfect competition. A new theory covering all the significant facts of normal economic life in an authoritarian and a mixed society will have perforce to be formulated. The sooner the economist realises that the free society assumed by all his predecessors and by most of his contempo-

raties is vanishing before central direction the better will it be both for the accuracy of his findings and the helpfulness of his conclusions. Even in the sphere of the traditionally free market, the existence of unsuspected factors is being more and more vividly brought to our notice. The assumed existence of the motive of maximisation of gains on the part of the seller and of maximising satisfaction on the part of the purchaser is seen to be too wide of the mark of reality. Not only are physical limitations imposed in the way of an unrestricted operation of these motives but even the psychological attitudes on which the assumed motivation is based are seen to be not of a uniform and sustained, but only of partial and intermittent operation. In other words not only do non-economic motives play a significant part in the working of the market,[5] but several influences external to the market are seen to have a determinant influence on the operations within the market. Pressure exercised by powerful influences in a capitalistic society and administrative action taken by an economically activised state are obvious cases in point. Even the theory of market operations in a predominantly individualistic society would thus appear to be in need of restatement.

The limitations on the scope of economic studies can only be those which arise out of actual economic conditions. The would be economist ought not to place self-imposed restrictions on what does and what does not concern him. Anything that affects the creation or use of material resources automatically concerns the economist. For the more systematic and fruitful utilisation of available knowledge, as also for giving full scope to the special aptitudes and interests of individual economists, a broad departmentalization can be introduced with great advantage. Thus an accurate and exhaustive description of economic phenomena and their interpretation in the light of significant factors would form a very important part of economic studies. A survey of this type will not fail to yield material for certain broad generalizations of causal relationships which would suitably form the analytical part of economics. In so far as economic action is purposeful it will always be necessary to formulate suitable methods of successful economic planning, individual or collective, and these will be the legitimate contribution of the economist to the formulation of economic policy. Discription, analysis and policy, though well-marked, are yet different aspects of the same interest, and in whatever manner we may name each one of these there is certainly no justification[6] for characterising one among them as the science and dubbing the rest as merely allied, and by implication, unscientific or non-scientific studies. The two essential attributes of science, namely, a high correlation among the causal factors and their expected

effects, and internal consistency of the system of thought based on these, are shared by all these departments of study in rich measure.

The singling out of analysis as based on some axiomatic propositions such as the law of demand, gives to the selected study an air of scientific precision which, in fact, the subject matter of study does not possess. By contrast it creates a feeling of distrust for the rest of the subject which also is equally unmerited. A persistence in this practice of abstraction analysis and deduction, without sufficient caution as to the very limited foundation on which it is built and as to the very restricted purpose for which it can be used leads to a glorification of 'Theory' for its own[7] sake. It is exactly this type of unrealistic theory which takes so much effort to reconcile with experience. We are then forced to distinguish between theory and practice thus marking ourselves out as after all not being in the same class as the natural scientists whose neatness and precision some of us are eager to emulate. It is so very important in all social sciences to keep to reality that analysis, description and policy[8] must be given equal importance. Analysis will justify itself only in so far as it is firmly based in economic fact and is helpful in the formulation of economic policy. The type of analysis which does not answer this test is worse than an unnecessary overgrowth, it is a wasteful indulgence.

This reference to policy is bound to jar upon the ears of those who have hugged the idea that economics is a positive science again, may I say in parenthesis, a symptom of that inferiority complex from which the economist occasionally suffers in his self-instituted comparison with the natural sciences. All sciences are positive upto a stage, so long as they are finding out the truth, but no science connected with human behaviour can either understand this truth perfectly or fulfil the purpose of this quest for truth until it has illuminated the path for more enlightened behaviour. It has been often said that economics deals with the rational behaviour of human beings in a particular aspect of their social life. Of this alleged rationality I shall have something to say at a later stage. But granting that economic behaviour is rational it is also of necessity purposive, as no behaviour can be rational except by reference to a purpose. While we may not prescribe a purpose of our own, an integration of purpose and behaviour, of ends and means, is so obviously characteristic of economic life that we cannot afford to ignore its existence. The attempt to distinguish between a science of economics which supplies a technical understanding of the characteristically economic forces at work and an art of economics which discusses practical action and policy is doomed to failure, as such

a separation cannot in fact be sustained without great loss of truthfulness to the science and of efficacy to the policy.

It would be a bold, certainly an unconventional, but all the same an essential step to suggest that the scope of economics should be widened[9] so as to extend beyond the workings of the system of organised exchange in advanced countries, and that it should take in as its legitimate field all the manifestations of economic behaviour found in different social systems, and more often than not, found intermixed with other types of behaviour. To such a comprehensive study of economic behaviour we must address ourselves in a purposeful fashion, the purpose being none other than to know the truth, the whole truth. In such a study ample room will be found for many aspects of investigation, historical and practical, which are now relegated to neglected corners of economic literature.

In view of this proposed expansion of the sphere of economic studies it will be interesting to examine the two basic postulates of current economic science. The first postulate relates to the nature of the economic criterion.[10] It is assumed that each individual has his own scale of preferences among the alternative uses to which he may put his limited resources. Action or behaviour in pursuance of this scale of preferences would be justly termed economic, and while selecting significant aspects of human behaviour for the study of the economist such action would be selected as relevant. Now this statement of the economists criterion of significance is sound as far as it goes. But judging from the limitations followed in practice by a large number of economists it does not appear that the criterion is unreservedly followed. While it is true of an individualistic economy that a large part of its economic activity originates in and is conditioned by the scale of preferences[11] that the individuals set out to pursue, in a socialised community the formulation of social or collective preferences acts as an important limitation on the working of the economic system. Even in a predominantly individualistic society the extent of collective formulation of preferences and of economic action in pursuit of the same is on the increase.[12]

As a first modification, therefore, of the postulates of economics we have to include collective along with individual preferences, in their appropriate sectors of permissible action according to the prevailing social system. Many aspects of social conduct which on the purely individualistic formulation of preferences would be considered as falling outside the scope of economics would be naturally included in economic discussion about a mixed or a collectivist society. A similar modification, even on a larger scale, would seem to be necessary in regard to the other basic as-

sumption of traditional economics. Hedonism, the instinct to maximise pleasure and to minimise pain, has indeed gone out of vogue as an axiom of normal human behaviour. Starting, however, from the problem of scarcity and of rational action in the pursuit of a scale of preferences in the face of such scarcity, a doctrine, substantially a mere paraphrase of the apparently discarded hedonism, of maximization of gains is featured as the natural goal of economic conduct. Hedonism had at least the pleasure and pain instinct of the animal to build on. But this doctrine of maximization[13] is little more than an oversimplified rationalization imported from outside into a motivation which is too complex for the effort of facile abstraction.

The pleasure-pain or income-cost calculus is a calculus only in name. Though rationality and purposeful action are not absent from economic behaviour, the extent and the manner of em ployment of the principle of choice is conditioned by various significant factor of racial, environmental and social character. Nothing can be more definite then the observed limitations onthe maximization instinct placed either by inherited or socially imposed modes of behaviour. It is not true even in comparatively advanced countries that the consumers and producers exert themselves to maximize their gain. A recent attempt on the part of an Oxford[14] group of researchers to contact men of practical business and to learn from them the motivations and methods of their economic acts has been an eye-opener. The producer, no less than the consumers, while not devoid of the natural desire to make the best of his opportunities, is not found to pursue this desire indefinitely. Moreover, even this desire operates within the framework of socially accepted and communally enforced norms of conduct. In fact, the fiction of an economic man is inadequate even for purposes of economic analysis as even in the sphere of economic activity, social man is essentially an institutional man.

Once the economic incentive is abandoned as a biological maxim the individuals in each group are found to be endowed with it in differing degrees and are found to operate under such differing forms of racial and institutional attributes that the claim to a universalized formulation of even the basic principles of economic behaviour is found to be scientifically untenable. What the German Historical or the American Institutional schools perceived as a special departure from the assumptions of the English school is really a law of universal experience. For in no nation can we assume the existence of the economic man. Indian[15] economists have for more than half a century emphasised the special importance of Indian sociological features in an adequate understanding of our own economic problems. Very recent

investigations[16] into the cost structure and income distribution, in organised no less than in unorganised industries, have again brought out vividly the dominating importance of social and institutional over the purely economic factors.

The abandonment of the postulates of hedonism, of maximization, of the economic man need not cause any despair among the would-be economic scientist. In interpreting the nature of economic experience in each community at any given time we must be alert and penetrating enough to notice the existence of other than these assumed motives. Such an attitude of caution and readiness to pick up fresh impressions is all the more necessary as neither the individual nor the community can be assumed to be static even in these non-economic contexts. A constant process of conscious and unconscious adaptation between opportunities, needs and behaviour is going on among members of a human community, though the pace and the manner of this change may not be identical in differing places and epochs. In fact, I am convinced that it is wrong to think of economics as being based on any invariable instinct[17] or even principle of human conduct. Habit rather than choice, will rather than reason, is the basis of economic conduct, in common with other aspects of human behaviour. Economics is not a science[18] only of correct or rational human conduct. If I may hazard a comparison it is like grammar; it observes, classifies and generalizes human usage in a particular part of human activity. There is no logic of economic behaviour. There is only a grammar of economic activity.

Logic is the science of correct or rational thought. Its purpose is not to describe how men actually think, but to outline the principles of rational thinking. In a field like that of complex social behaviour, of which economic activity is a part, we cannot proceed on the assumption of predominantly or continuously rational motive. Logic has an application to economics in the processes of thought of the researchers and the student, not necessarily of those whose behaviour is being studied. From this standpoint the whole discussion with reference to the proper method of economics is irrelevant. There is only one scientific method[19] for all sciences, including economics. There can, therefore, be nothing blameworthy in a student of economics insisting on rigorous proof and accurate presentation of propositions for which he makes himself responsible. This does not, however, mean that he should refuse to say anything about matters not amenable to such proof and presentation. Much less does it mean that for the satisfaction of his desire to conform to scientific form he should assume unrealistic premises as axioms or that he should employ forms of causal representation which do less

than justice both to our state of knowledge about facts and about the causal factors. Where the situation is undefined the statement of relationship as also its representation in form, logical or mathematical, has to be indefinite. The show of algebraic elaboration and graphic representation in which an important section of contemporary economists seem to revel are from this viewpoint to be deprecated. Marshall's general reluctance to use mathematical formulæ and his insistence on guarding himself in appropriate words against over-generalization are even now to be preferred.

While the method of scientific inquiry is uniform over the whole field of systematic study the degree of success in attaining adequate and exact knowledge are bound to differ according to the nature of the material and to the stage of advance of the science concerned. Close, steady and patient observation is the necessary starting point in all the empirical sciences. A systematic classification, comparison and correlation of observed data will, by logical process, suggest hypotheses which on further observation may either be verified or disproved. Verification will fix the hypotheses as generalized laws, whereas want of proof will mean a further challenge to fuller investigation and deeper understanding. Whereas on the assumption of some generalized premises an imposing body of economic analysis has latterly been built up, the verificatory work has for the most part been neglected. For this reason a good part of economic theory to-day despite the pretentious forms employed in its statement, is scientifically in no better state than a hypothesis. It appears to me that if only the crucial importance of verificatory work in the progress of economics as a science is really appreciated there are no insurmountable difficulties in its way. Even the exact sciences, now so called, were in their infancy not so exact after all.

The complexity of the subject matter of economics, which is often alleged to be a reason for the lack of practical verification being pursued as a necessary corollary to formulation of theory, is in fact the resultant effect of the combined operation of a number of simple causes that need further investigation. It may be found, if the necessary verification is steadily pursued, that some of these causes fall outside the scope which the economist had defined for himself at the commencement of his investigation of an 'economic' problem. In this situation nothing is left for him as an honest student beyond either widening the scope of his inquiry or suspending judgment pending closer co-operation with intellectual fellow-workers to whom a study of the additional factors may rightly belong. The last thing that an economist, thus baffled by reality, is justified in

doing is to abstract himself from the disturbing factor and to proceed to state a proposition which is based on inadequate and unrealistic foundations though it may have the appearance of an exact law.

Another excuse usually offered for lack of sustained interest in verificatory work, viz., the non-availability of the experimental method is equally unsatisfactory. We are told that we cannot experiment in social affairs, as the actual life of human beings living in society cannot be played with as though they were sociological guinea-pigs. This is a plausible but rather an overworked excuse. To a certain extent, as recent experiments in state planning have proved, experimentation is not altogether ruled out, if only we have the courage of our intellectual convictions. In fact, such a prospect of verificatory experiment on our fellowmen will impart to the formulations and pronouncements of many of our higher and purer economists the much needed introspective caution that they lack. Even where experiment is ruled out by the nature of the case, observation of actual experience in the light of prophetic enunciations would supply the place of experiment. Without wishing to underestimate the difficulties in the way of a routine application of the usual methods of verification I must here place on record my deep conviction that unless the economist, like his compeers in other sciences, is made responsible for verification he will never attain that prestige as a scientist that he legitimately seeks in any case I am convinced that he is never going to reach that summit of scientific recognition by neglecting the challenge of circumstantial situations and by relying on mathematical formulæ which have no more meaning than the letters and the symbols used can give them.

In the sphere of currency, interest rates and generally the group of problems connected with the monetary approach to the study of trade cycles, some verificatory work has already been done. The results of such work have proved to be almost entirely negative. As a prominent instance may be mentioned the work of Dr. Frederick R. Macaulay, on behalf of the National Bureau of Economic Research, New York. Dr. Macaulay addressed himself, in a spirit of painstaking inquiry, to the movements of interest rates, bond yields and stock prices in the United States since 1856. Dr. Wesley C. Mitchell, Director of Research, thus summarizes the verificatory significance of the project : "There has been not a little speculation among economists about such matters as the extent to which forecasts of future price fluctuations influence the present demand for loans. Out of such speculations have been spun theories concerning the relations among the movements of prices, interest rates, invest-

ments, volume of credit, and production. By taking the clear test case of bond yields and short-term interest rates, both considered with reference to the same period, Dr. Macaulay is able first to demonstrate what the mathematical relationship between the two sets of movements would be if men forecast the future correctly, and second to demonstrate that the actual relationships are commonly of an opposite sort. Though the theoretical relations that would exist between other paired series if the future were accurately known, are less simple in their logic, he is able to show how dubious are numerous explanations of the actual relations that credit men with greater ability to foresee the future than they possess."

Dr. Macaulay himself formulates his theoretical judgment on the observed behaviour of interest rates as follows :—"Most theories of why interest is paid at all fail to explain the facts of the actual market not primarily because the theories are non-quantitative but for a more fundamental reason. They commonly assume a degree of rationality and capacity in the conduct of human affairs that does not and cannot exist." The results of such verificatory work as has been done in the group of monetary problems is thus to bring out the real position of present day economic science. It is little more than a series of connected propositions which would hold true if the behaviour of men in business was guided by the assumed principles of rationality and intelligent anticipation the actual behaviour so far differs from the assumed one not only in degree of rationality and intelligent anticipation, but also in being intermixed with other factors, that general, i.e., speculative economics completely fails either to explain or to forecast economic behaviour in actual practice. If this is not challenge enough to the refined and the mathematical economists either to prove their theories or to modify them, one fails to see any hope for economics as a science at all.

So much for the field of economic problems where verificatory work has already commenced. But as regards the basic theory of economics, viz., the theory of value and distribution, no verificatory work worth the name has yet been attempted. I am sure that even first step in verification of the marginalist theory of value and distribution would be enough to show up the inadequacy and the utter unreality of the basic theory. The marginalist school held a certain academic and intellectual pre-eminence among economists from which even now it has not been dislodged. By implication this school explained the distribution theory as an application of the general price theory of marginal utility or marginal equilibrium. Though the economists were careful to utter a caution that their findings have no

ethical bias, and that equilibrium is just equilibrium, the implication on which the interested parties and the unwary reader invariably relied was that in a free-exchange economy the factors of production as a rule get a return which is proportional to their contribution to the joint product. A feeling of complacence was created by the prestige attaching to this theory, and reformers, both academic and social, had to fight hard against the inhibitions created by marginalist assurances.

So far as the theory of distribution is concerned there is almost a complete void. Rents, wages, profits are all seen to be extremely complex categories emerging as a result of a number of financial, institutional and psychological factors. The attempt to replace the marginal productivity theory of interest by the purely monetary or the so-called liquidity preference theory has completely failed to establish itself either by logical reasoning or by actual performance. The results of actual investigation of interest rates on the American stock and money market referred to above, are very significant in this respect. The failure of marginalism to explain the different levels of the earnings of the factors of production is matched by its unserviceableness in the sphere of prices. The free market in which rational action in pursuit of maximization produces a general equilibrium of ratios of preferences is little more than a fiction. Monopoly is no longer an exceptional case, and the category of the rest to which imperfect competition has been relegated is found on closer analysis to contain an almost innumerable variety of particular cases. The whole technique of marginalist analysis is in urgent need of being replaced by more realistic formulations of the theories of value and distribution.

Actually, however, we find little more than new variants of the old method of abstract rationalization put into the place of discredited theories. In the approved Ricardian manner, as in the case of his theory of rent, or *a la* Marshall, as with his notion of the representative firm, purely abstract and independently rationalised notions and constructions are superimposed on facts of experience, and if the fit of the technique is not satisfactory, as usually it is not, instead of calling into question the theoretical apparatus an attempt is made to ignore such of the facts as are found to be inconvenient for the success of the technique. Lest this might appear to be exaggerated or unnecessary criticism, attention may be drawn to such new devices as are expressed by the imposing titles of liquidity preference, multiplier and uncertainty bearing. As aspects of economic experience for which we ought to seek a verification, these notions have real value. But their utility stops at that; by their own neatness of definition they cannot

explain away the complex reality that interest rates, levels of economic activity or the profits of industry possess in themselves.

What I have said about the scientific necessity of verification has a vital bearing on the formulation of theoretical technique. In adopting notions and techniques of theoretical reasoning the necessary responsibility of being able intelligently to explain a real experience must be recognized. If this is not done and our notions have no more meaning than what by definition we give to them, the imposing results of elaborate reasoning in which these notions figure as the chief counters can be said to have only formal, but no real, validity. Howsoever bracing such an intellectual exercise may be, I do not think that the world either of truth seekers or of practical men has any use for it. Our notions must be taken from practical life, as the natural scientists take theirs from facts and things of experience. The formation of concepts tends to be verifiable in proportion to which it is based on reality. By deliberately abstracting from reality in our endeavour to have neatly defined and logically arranged categories we only ensure that the results of our reasoning are utterly irrelevant to the actual economic experience. Whereas past experience should have put us on our guard against a further continuance of this tradition of abstraction, its perpetuation seems to be assured by the ever-increasing number of almost fictitious devices, such as the indifference curves, with which we are being flooded. I for one am convinced that no economist should be permitted to use, except perhaps for his personal edification, any concepts which in material respects differ from realities of experience. Nor should he be permitted to claim validity for a theory unless its truthfulness is verified by facts.

While I myself strongly subscribe to the view that no science can be justified in claiming to be excused from the full implications of the logical process, I have nothing to say in criticism of those who feel that they might discover truth by more simplified methods. The proof of the pudding is in the eating, is an adage that may be applied to intellectual no less than to culinary efforts. If the results are borne out by experience the causal relation may be taken to be substantially established, though we might be mystified by the process of arriving at the result. But I repeat that there can be no truth that is not borne out by experience. As Ranade[20] said long ago the standard of nature, i.e., experience is the final source of our knowledge and the only trustworthy guide to our action. If all, or a significant part of our experience, is to be treated as exceptional to the main theory of a science, this theory may be justly dubbed, as Taussig did, cob-webs of the mind.

Mine is a plea, I hope I have made myself clear on that point, not for the formal appearance of logicality in the presentation of the conclusions of economics, but for the real and substantial logic of the propositions of economics, which must be based in the truth of observation and which must be borne out by the truth of experience. A very influential section among theoretical economists has tried to attain formal logicality by assuming the non-existence of many things which are really vital to what we call economic behaviour or economic problem. Thus while some have guarded themselves by specifically declaring that economics by itself can have no objective and that the economic good is none other than the preferred good, in the work of best known economists such as Marshall and Pigou[21] the relief of poverty has been specifically mentioned as the goal of economic studies. Without wishing to reopen the whole question as to whether economics has a normative side at all, whether it can have an objective it is pertinent to observe that the more vital question is, not whether the economist has an objective but what is the objective of economic action in so far as it is purposive. Maximization of welfare, for the individual in an individualistic economy, and for the community as a whole in a collectivist economy, have been assumed to be axiomatic statements of such a goal. Any other goal such as defence, in Adam Smith's famous dictum, has been treated as exceptional. Defence and opulence are now so closely intertwined in the evolution of industrialism, that against the background of advancing technology is it now at least as correct to say that power[22] is the end of economic effort, as it was sometime ago to describe the end by the word welfare. If the two things in essence meant the same thing the variant mode of expression would not introduce a new bias in economic calculation. As, however, much of the activity entailed by power-economics is from the standpoint of welfare really 'uneconomic', a major irrationality has been introduced in the functioning of integrated economic systems of the present day. All the well-marked tendencies of the times point towards a further extension of power-economics as a handmaid to power-politics, and how much the economic institutions with which we are accustomed will suffer from this new direction of social objective it is now too early to say. In this all-important respect the economic destiny of mankind is hanging on a thread between rival ideologies which are too well-known to need mention here.

While almost all the text-books on economics and even advanced writings on the subject make explicit statements to the effect that economics is concerned with things as they are, that it is no part of an economist's task to prescribe remedies, that,

further, economics has nothing to do with political or ethical aspects of things, most of the economists including authors of such exclusive pronouncements declare themselves with obvious emphasis on just the matters that they as economists considered as debarred. Leave alone the frankly political work of Hayek[23] on planning, which he considers to be a sure Road to Serfdom, but the sustained pressure of Robbins,[24] purest of economists, against the extension of governmental control in economists affairs is sufficient to show that the performance of economists of the exclusive school believes their professions. If we are told, as occasionally is the case, that this part of the economists, work is done not in their capacity as economists but as citizens the pertinent question arises as to what is in their own view their special qualification to utter and propagate these ideas. Obviously it is their special knowledge of the causes and effects of particular types of economic behaviour. Rather it is their own version of these causes and effects. Such a natural, almost irresistible conduct on the part of economists proves that the attempt to draw a very restricted and definite boundary about the scope of economics is neither inherently justifiable nor practically feasible.

In all social studies the urge of pressing problems[25] is more important than the preconceived notions of abstract speculation. The disparity between the precept and the practice of economists just noted is an example of this truth. Another peculiarity of economic thought, which is not wholly complimentary to the economists, is the post-facto character of a good deal of theoretical progress. Unless an event or a development presses itself on the attention of the economist, rarely does he theorise about it. In this sense the work of most economists is the product not only of their times, but to a large extent also of their own environment. The recent developments in the theories of imperfect competition, the trade cycle and the nature of profits are an example of this feature which is almost all-pervasive. To a certain extent such a post-facto interpretation and rationalization is natural. But I feel that the economists as a class have been much too passive and inert in this respect. To study things as they are, not to prophesy, not to prescribe—are the kind of inhibitions that have hampered the progress of economic thought. In a world that is constantly changing, this unwillingness to move with the times has appreciably reduced the usefulness of the economist. If the economists are only going to tell us, and particularly teach us, the why and the wherefore of things that prevailed the day before, there can be little social benefit from the study of economics. That the main body of economic theory still clings to the laws of static equilibrium in

a mainly competitive world takes away most of the justification for its use in the class-room. I am sure, many teachers have felt like myself a sense not only of unreality but of guilt while expounding to the students of to-day the laws of an economic system that, we at the same time assure them, is well-nigh past.

A mere qualification by reference to new trends is hardly a compensation for the inherent impropriety of mistaken emphasis. The swing away from competitivism has been obvious at least since the early years of this century, and still not only do the economists assume its existence for the elaboration of their theories but the purest[26] amongst them actively canvass for its retention. Profit making by individuals and firms which is the chief outward expression of the competitive principle has been steadily assailed by new policies in the spheres of taxation, monopoly, control, state enterprise and social services. The combined effects of technological changes, which bid fair to remain a constant feature of our economy, and of a steady widening of the scope and extent of public action in restraint of private enterprise are too significant for economic scholarship to ignore. Both by way of analysis and prescription the economist, if he is not to lag too far behind the happenings and the needs of the times, must concern himself with the implications of collective economic action.

Either by the personal choice of individuals or by the collective choice of society, human activity in the field of raising and using material resources has to be planned as rationally as human nature and environment would permit. The dominant position occupied by technological instruments in the functioning of the economic system makes it increasingly capitalized, though not necessarily capitalistic. This involves economic action spread over time. The study of short and long term effects, supplemented by transitional periods, is only the beginning of a new and powerful interest in the laws of economic change or development as such. Even the trade cycle theories are engrossed with the notion of equilibrium, its maintenance, causes of disturbance and eventual restoration. To borrow the language of medical science most of the current study of economic fluctuations partakes of pathology rather than of physiology. Change and development, which are signs of normal economic health, are for the most part neglected. With constant techno logical progress and purposeful social direction, however, the need for a satisfactory theory of economic development has become paramount.

It is clear that a dynamic theory concerned with a succession of economic situations, rather than with a mere alteration, has been attracting an increasing amount of attention. Still the

paucity of such works as J.R. Hicks' *Value and Capital* reveals the general neglect of this really significant approach. Among the classical economists Malthus and Ricardo had both a vivid perception of the inherent tendency towards change possessed by economic forms. But their work in this sphere suffers from treating the changefulness as being due to some single natural cause, falling according to them outside the scope of the economist. Malthus, as is well-known, was engrossed with the natural law of population. Ricardo's obsession was with the falling and differential fertility of land. Increasing rents and declining profits, inevitable economic results of these natural conditions, would according to Ricardo lead to steady economic change. Among well-known thinkers Karl Marx was the first to enunciate a law of economic change as economic change. That forms of production have a logic of their own and that one stage of production technique, having conditioned its appropriate social and cultural pattern, evolves into its next succeeding stage which also is similarly conditioned are the substance of his famous Materialistic Interpretation of History. By singling out the economic factor and, even within the sphere of economic life, by naming forms of production as the significant agent of change, and thus, by implication, excluding the creative power of human will, Marx restricted both the validity and usefulness of his doctrine. Among later day economists may be mentioned Schumpeter[27] who feels that technical inventions are the most significant cause of economic change, and, secondly, Bertil Ohlin who gives the palm to the steadily increasing tendency towards central organisation and control.

It is for future researchers to lay bare all the causes and implications of economic change which would be a vital concern of those who direct economic life. For us it is enough to start with the inescapable fact of the impermanence of economic conditions. It is not enough, as used to be done till recently, to classify the different patterns of economic or socio-economic conditions and to suit differing economic theories to them. Nor would it be adequate to follow the trail of any single or limited number of factors as has been done by authors just mentioned. We have to take note of all the significant conditions of economic life and then try and study, as well as we may, the causes that lead to changes in each one of these. No doubt many of these will be found to be mutually dependent and for a long time to come perhaps there would be considerable indefiniteness about our knowledge of each. How very difficult, if not baffling, such a study is likely to be, may be illustrated by reference to our state of knowledge about population. By comparison with the other conditions

of economic life such as physical resources, technique of exploitation, institutional frame-work, wants, incentives and preferences, population appears to be the most amenable to a quantitative study of probable change. Demographers and statisticians have been hard at work on the forecasts of population. But even in that paradise of detailed and specialised research, the United States of America, population forecasts have during the current decade gone so far wrong that during no more than half a decade most of the projected rise for the whole decennial period has been accomplished. And all this during a period of war, which according to all customary expectations should have surprised by retardation rather than by such an emphatic acceleration !

What Burke has dubbed 'retrospective wisdom' may indeed in this case appear to be justified. That no correlation can be established between economic or, for that matter, any purely physical factors and the movements of population is a thesis that has been urged by several students of the subject, including some Indian[28] authors. That in human behaviour in general, including therein economic behaviour, psychological[29] factors are more important than physiological, and sociological than economic, is an important finding of modern research in social behaviour of which sufficient note has not been taken by the analytical and abstract school. They still prefer to proceed on the instinct theory which modern psychology has come to discount. There are many more things in the world than are dreamt of in our economics, and if we set out to learn all the significant factors which affect what we consider a legitimate problem in economics, it is our duty to study these other things, or at least to acquaint ourselves with the latest state of expert knowledge regarding them. In many contexts we expressly speak of anticipations, confidence, incentives and such other psychological factors without attempting to verify our ideas by reference to the sciences concerned.

What is true of our neglect of individual and social psychology is no less true about our attitude towards the implications of ethical conduct. Nobody desires to load a discussion of economic behaviour by obtuse references to ethical controversies. But efficient or good economic conduct is so much a part of the general code of good behaviour that we shall never attain a full understanding of the former without making due allowance for the latter. War-time behaviour of different classes in different countries in the sphere of economic activity cannot, for instance, be fully explained without reference to the general standards of morality affecting the group concerned. And nobody, not even the theoretical economist can deny that

difference in this field has materially affected the economic fortunes of humanity. The whole complex of customary modes to which I have drawn attention in the earlier part of my speech would be unintelligible without reference to ethical data. But nine economists out of ten will be shocked at the suggestion that economics and ethics cannot be separated from each other.

Ethical neutrality of economics is, if I may repeat my earlier observation, another of those poses which the economists are wont to assume with a view to assimilate their position to what they consider to be the correct position of an exact science. That the pose is no more than a pose has been made clear by the manner in which economists have freely indulged in commendations and denunciations[30], though they say that they have done this not as economists but as, let us say, amateur moralists or social reformers. The dissociation of cleverness from goodness, of knowledge from wisdom, is a blight from which human civilization has suffered for long. The physical sciences themselves are no exceptions to this general blemish. Their handiwork, as in the case of the Atomic Bomb, has been exploited by war lords, leaving it to the scientists to issue a remonstrance against the inhuman use of their discoveries. The economists would indeed not be surprised at this predicament of their friends of the more dignified sciences. From the days of Manchesterism to those of economic controls we know that so long as we say that the laws and postulates of economics are ethically neutral, we are placing a premium on their use for exactly the wrong type of ends. Not only for a more realistic understanding of economic behaviour but also for a more beneficent use of economic conclusions, it is essential that we increase the points of our contact with the science of ethics.

If the relationship of economics with psychology and ethics is so close as I have been trying to make out, it needs hardly any further elaboration to point out that the border line between the field of the economist and the political scientist is as good as non-existent, especially when the integration of social life is emerging again into the same prominence in which it was witnessed before the era of individualism was ushered in. The subdivisions of social conduct are purely arbitrary and the more readiness we show to co-operate with the all embracing science of social behaviour, namely sociology, and the particular studies of our sister sciences[31] such as anthropology, psychology, ethics and politics, the better will it be for the peace both of our intellect and of our soul. I have a feeling, though it is not for an economist to dogmatize about it, that our contact with the other social sciences will be equally beneficial to them.

Such language may sound strange and heretical to the ears of many economists; but it is intended to produce this effect, as it is my attempt, in what I am saying today, to urge a strengthening of the foundations and a broadening of the scope of economic studies. Whether we will it or no, our work is bound to be impressed into practical service by interested parties. If we are unwilling or unconcerned parties, the chances are that we may subserve wrong ends. If on the other hand we openly include socio-economic problems in our study, we can at least guard ourselves against interested or misguided exploitation. Such expansion need not make us worse theorists; my conviction is that intimate contact with practical realities will make better [32], if perhaps less imposing, theorists of us all. There is a certain traditional bias in favour of the view that only precise, impersonal and abstract statements befit the economist. Any admixture either of social feeling or of non-economic caution is likely to be denounced as unscientific. In spite of such a danger I make bold to say that economics ought to assume a more willing and more constructive role in the shaping of social policy and that it will not be able to do this satisfactorily unless it broadens its vision so as to take in all the significant aspects, even including apparently non-economic aspects if they are really significant. Whenever an eminent economist has thus girded himself for once to face reality, he and his followers have been the better for it. Smith, Marshall, even Keynes in his later-day writings, are examples of the successful use of this wider orientation in economics. It is the lead of such masters and not of the much advertised pure school that we will do well to follow.

Few things have been left in their pristine purity by the two World Wars and the inter-war depression. The economists are no exception. By the thousand they are being impressed into the service of the state and of corporate and individual employers. Whether these experts cease to be economists on appointment or they cure themselves of earlier convictions such as—the economist s work is done without reference to ends; it has neither ethical, political nor any other bias; that it cannot include advice in its scope; that prophesy is not possible in economics—it is difficult to say. The former alternative will not conform either to the self-esteem of the appointees or the declared intentions of the appointing authorities. More probably then it is the latter alternative that conforms to reality. Inso far as this is the truth, and the experts concerned do not after appointment cease to be students of economics, I have every confidence that their experience will be thrown on the side of just such a broadening of the scope of economics as I have urged today.

Recently an economist[33] who deliberately divested himself of his role as an economist, while pronouncing judgment on what at least in part must be considered an economic problem, has found himself distinguished by being made the spear head of an electioneering attack by the leader of the British Conservative Party. Whether socialism, planning and collectivism are economically preferable to their more familiar counterparts and whether, combining economic with all other aspects, a social scientist would or would not advocate them, are matters about which controversy is possible. If an economist takes the trouble to argue the whole complex of questions as his legitimate field, what he says has significant value. But if he figures as a scientist in his theoretical writing and as a disillusioned politician in his practical outpourings, the fact that he is a noted economist can hardly save him from sharing the fate of the proverbial cat's paw.

If collectivist direction and central planning, which are indicated by irresistible economic and technological forces, are found to have certain political or social blemishes, we as economists can do one of two things: either leave these ailments to be cured by the appropriate experts or, as we are more directly concerned with these problems, co-operate with the other experts in finding out remedial treatments. Almost every criticism that has been levelled against collectivism[34] and planning on the score that these inevitably lead to undemocratic forms of social existence suffers from such incomplete integration of essential thought. Not content with impressing political prejudice into service against planning some economists have delivered themselves of an imposing moral judgment to the effect that the recent preference for planning reveals a blunted[35] moral sense. The number of economists who have tried to prove the unworkability and indeed the irrationality of socialistic society is legion. In spite of such biased criticisms collectivism is on the march. Judging from past experience of revolutionary changes in human societies it is only to be expected that the principles of collectivism and planning will ultimately be found to have several degrees and forms of manifestation according to local environment. It would be as true to say today that collectivism is necessarily undemocratic as it would have been to say, on the occasion of the French Revolution, that democracy would necessarily be republican and atheistic. Here is a concrete case of the economists being in danger of repeating their performance. Only this time they will have less excuse for such intellectual sluggishness. They have in a willing and understanding study of socialism not only an opportunity of keeping themselves abreast of social change but also of help-

ing in the mitigation or removal of those evils which they are wont to associate with it.

As mine is a general plea for giving social, institutional and environmental factors an adequate importance in the formulation of economic generalizations I have not thought it necessary to refer to the work of the economists in India by particular mention. In view, however, of two criticisms occasionally made against the large body of Indian economists, I would take this opportunity to offer my own reactions to the same. The complaint that the work of Indian economists, especially in the field of economic theory, is not characterized by sufficient originality and academic worth has often been made, and the criticism has not infrequently been offered by the economists themselves. I have given some thought to this criticism in the light of the origin and development of economic thought in this as well as other countries. Excepting the refinements of the mathematical school, which may be good mathematics but is in my opinion doubtful economics, the characteristic contributions of great economists have mostly been a response to the constructive challenge of their environment. Smith, Malthus, Ricardo, Mill, List, Carey, Marshall, Keynes—to mention only a few among those whose names are house-hold words among economists—all wrote for their own time and place, and, what is likely to be forgotten, all of them were encouraged by a feeling that the authority charged with the responsibility of solving urgent social problems was likely to be influenced by their writings. I do not suggest that such a purpose was always consciously entertained or that the master-pieces of these renowned authors were little more than overgrown pamphlets. Those of us, however, who have studied the environmental influences on the progress of thought will not, I hope, condemn me of stretching a point too far. Much in our environment even to this day puts us up to the task of destructive criticism of social policies based on theories which cannot be readily applied to our condition[36]. I have reason to say that even today the powers that be, even though they might employ a few economists, are still unwilling to receive guidance from Indian economists.[37] I am convinced that there will never be a living economics in this country so long as there is not a living social power, i.e., an authority which is organically connected with the social environment of which the economist himself is a part. This circumstance also explains, though it might not always justify, a good amount of political bias in some of the writings on professedly economic subjects published in this country.

Under the best of dispensations, however, it must be admitted, it will take some time for an Indian school of economic

thought comparable to the English, the American, the German, the Swedish and now the Russian, to be established in this country. Economics, though its importance was first announced by Ranade[38] over fifty years ago, is a comparatively recent addition to the special subjects recognised in our Universities. Considering the complexity of our problems and their marked contrast to conditions on which much of prevailing economic theory is based the number of what may be called professional full-time students of economics is woefully small. In keeping with the growing importance of the economic aspects of our national and international life the number and staffing of economic departments must be multiplied several times over to justify our expectations of an adequate study of all our problems and of the emergence of a generalised system based on our national peculiarities. A mere multiplication of pedagogic establishments will, however, not suffice. The quantity and variety of teaching work expected from a member of the economics staff are certainly no less here than in most countries outside Great Britain. In addition few of the teachers of economics are free from important administrative duties.

For these reasons, as also for the greater specialisation of academic effort, it is of the utmost importance that research institutions[39] providing adequate facilities for independent investigation should be started as part of a deliberate plan. Neither the educational nor the economic planner[40] in India, I am sorry to say, has considered it worth his while to include such institutions in the normal intellectual, scientific and cultural set up of the country. The importance of verificatory work to which I have alluded in the earlier part of my speech is specially marked in our country, where the danger of impatient application of ready made foreign theories is very real. The work already turned out by a large number amongst us in the sphere of economic history and of economic problems is of no mean order, and will compare favourably with similar work done elsewhere. Even in the sphere of economic theory, results of investigations carried on by institutions like the Punjab Board of Economic Inquiry and the Gokhale[41] Institute of Politics and Economics in Poona have crucial significance regarding the validity of accepted economic theory. The subject of agricultural costs handled by both, and that of industrial earnings to which Prof. Gadgil[42] has given so much thought, are really starting points of a fresh formulation of theory. Given the social environment, the academic aids and the necessary time, I have not the slightest doubt that we shall be sharing to the full with our fellow-economists in other countries, the responsibility of searching wide and searching unerringly for economic truth wherever we may find it. Let

it not be forgotten that even economic study is now an industry and a highly capitalized one.

Notes

1. "An educated person should expect to obtain precision in each branch of study to the extent which its nature permits."—Aristotle, Ethics.

2. "Even on purely theoretical matters there is so much division of opinion that judgments even regarding 'what is' are no less personal than judgments regarding 'what ought to be' ".—E.R. Walker. From Economic Theory to Policy, p. 210.

3. The following extracts from a contribution to the Economic Journal (Dec. 1938) by L. Robbins, are interesting in the present context :—

My own attitude to problems of political action has always been one of what I might call provisional utilitarianism.

But as time went on, things occurred which began to shake my belief in the existence of so complete a continuity between politics and economic analysis. I never thought of abandoning my provisional utilitarianism as a working political philosophy. But I began to feel that there were profound difficulties in a complete fusion between what Edgeworth called the economic and the hedonistic calculus. I am not sure how these doubts first suggested themselves; but I well remember how they were brought to a head by my reading somewhere—I think in the works of Sir Henry Maine—the story of how an Indian official had attempted to explain to a high-caste Brahmin the sanctions of the Benthamite system. "But that," said the Brahmin, "cannot possibly be right. I am ten times as capable of happiness as that untouchable over there." I had no sympathy with the Brahmin. But I could not escape the conviction that, if I chose to regard men as equally capable of satisfaction and he to regard them as differing according to a hierarchical schedule, the difference between us was not one which could be resolved by the same methods of demonstration as were available in other fields of social judgment.

No one who had ploughed through the turgid mass of German work in this field could doubt the desirability of keeping philosophy in its proper place.

I am distressed that anything that I have said should give rise to recurrent dispute which suggests to the outside world a disunity among economists which I am persuaded does not exist : my essay was meant to defend economics from lay misunderstanding, not to provoke new confusion.

4. "If the subject matter of economics is neither more nor less than its own technique, there is a temptation to select problems to which the technique is suited and to protect the beautiful 'engine' of economic theory against the hard facts which might dull its cutting edge. This type of narcissism has exercised too great an influence over the development of economics in recent years, despite Marshall's warning to be on our guard lest we should fall tacitly into the fallacy of regarding what is tractable to our intellectual machinery as equivalent to what is important."—E.R. Walker (Ibid), pp. 56-57.

5. "A theory of extra-market operations must supply a principle of choice of significant facts and a conceptual scheme in the same way as a theory of market operations."—E.R. Walker (Ibid), p. 109.

6. "The time has surely come to consider afresh (and with the help of our predecessors as well as our contemporaries) what is the proper scope of economics. There are, as I see it, three distinct fields of activity: the logical analysis of the causation of economic processes; the description, interpretation and measurement of economic phenomena; the formulation of economic

policy. The first we can hope to make scientific, in the sense that with regard to its strict logic we ought to be capable of achieving indisputable agreement. The second we may hope to make more nearly scientific than it is, but *pace* Dr. Tinbergen and others working in that field, I doubt whether the number of variables and their everchanging timelags can be reduced to such scientific order that the human judgment will disappear from their interpretation. The third—the formulation of economic policy—is not scientific, if by that we mean that our own judgments must form the "most important constituent." Austin Robinson, E.J. Vol. 52 (1942) p. 241.

7. "Present day economics suffers from 'theoretic blight', that is from a tendency to develop theory for its own sake even if this involves using unrealistic postulates and an increasing remoteness from the real world."—E.R. Walker (Ibid) p. 48.

8. Prof. D. R. Gadgil, Presidential Address, Indian Economic Conference. 1941.

9. "A disregard for the conventional boundaries of economic theory may pay handsome dividends, not only in the form of greater certainty on specific issues, but also in the enlargement of the economist's general competence."—T. R. Walker (Ibid), p. 10.

10. "The economist is entitled to his criterion of individual preference ....Without his own criterion he cannot choose among the infinite variety of possibilities....Without his own criterion, he is entirely stultified. With it he can give advice of precisely equal validity and freedom from ethical bias whether a specific end is furnished to him or not."—R.F. Harrod's Address to Section F of the British Association, 1938.

11. "If an individual prefers a commodity or service X to Y, it is economically better that he should have it. Similarly if the individual prefers work X to Y, or dislikes it less, it is economically better that he should do it. The economic good is thus the preferred."—R.F. Harrod (Ibid).

12. The freedoms announced by the Atlantic Charter are a prominent example of collective formulation of preferences on an international scale.

13. "There are communities where it is the exception rather than the rule for an entrepreneur to know how much profit he makes. For instance, one consequence of wartime price control in Australia is likely to be a revolution in book-keeping. Many traders, for the first time in the history of their firm, have now found an incentive to keep accurate accounts."—E.R. Walker (Ibid), p. 89.

14. Thus Mr. Harrod writing about the results of the Oxford economists' direct questioning of a group of businessmen says: "It has been impossible not to be struck by the devastating completeness of entrepreneurs' uncertainty about matters usually assumed to be known in the text books." Oxford Economic Papers, No. 2, May 1939, p. 5. Quoted by E.R. Walker, (Ibid.), p. 67.

15. "If in politics and social science, time and place and circumstances the endowments and aptitudes of men, their habits and customs, their laws and institutions, and their previous history, have to be taken into account, it must be strange indeed that in the economical aspect of our life, one set of general principles should hold good everywhere for all time and place, and for all stages of civilization." Ranade—Indian Political Economy.

16. "Similar instances could be easily multiplied. There is, however, no virtue in mere repetition. I have for the description chosen only the oldest centres and the most well-established industries, so that it may not be said that an unfair sample was taken or an exaggerated impression was sought to be conveyed. A study of these conditions seems, at least to me, to show conclusively that the assumptions made ordinarily in the formation of the theory

of wages and in prescribing policy on the basis of that theory do not hold good in India."—D.R. Gadgil, Regulation of Wages and Other Problems of Industrial Labour in India. 1943—p. 19.

17. "Psychologists, concerned not with the description of social norms but with the explanation of the development of personality and individual behaviour, have grown increasingly dissatisfied with the instinct theory. Instead of seeking the explanation of human conduct in a few organic dispositions, psychology is turning more and more to the social forces which determine the formation of the personality and modes of behaviour."—E.R. Walker. (Ibid), p. 84.

18. "At any rate, for half a century and more in discussion and conversation, though seldom in print, Foxwell propounded the view that economics is not a branch of logic or mathematics, but belongs to the art of managing public affairs by the application of sound reasoning to the whole corpus of experience."—Keynes on Foxwell, E.J. Vol. 46 (1936), p. 611.

19. "The task of the social scientist is therefore the same in all essential principles as that of the natural scientist to apply logical processes to the data of observation, and to attempt the verification of hypothesis upon the assumption of continuity, and the determination of general laws, of all events." —E.F.M. Durbin, E.J. Vol. 48 (1938), p. 190.

20. Ranade, M.G.—Essay on Indian Political Economy, 1892.

21. "The lives of the many are darker than they need be; herein lies the impulse to economic investigation. The removal or at least the mitigation of the evil is the goal of the economist's search." Pigou, Unemployment, 1913.

22. Hawtrey R. G.—Economic Destiny.

23. "It is now often said that democracy will not tolerate "capitalism." If "capitalism" means here a competitive system based on free disposal over private property it is far more important to realise that only within this system is democracy possible. When it becomes dominated by a collectivist creed, democracy will inevitably destroy itself."—F.A. Hayek—The Road to Serfdom, p. 52.

24. "If recovery is to be maintained and further progress assured, there must be a more or less complete reversal of contemporary tendencies of governmental regulation of enterprise."—L. Robbins, the Great Depression (1934), p. 193.

25. "The test that we must apply to economic theory is not whether its results are contained in its premises but whether it is a serviceable instrument in the study of concrete problems." E.R. Walker (Ibid), p. 47.

26. The main thesis of L. Robbins' Economic Planning and International Order is that any plan of centrally planned economy is bound to be less efficient in its use of resources than a 'Liberal' economy. The book ends with the following summary of the main argument of the Essay. "The root of our present difficulties is not some inherent tendency to economic catastrophe but a political structure which has outlived its utility. Not capitalism which, rightly conditioned, is a safeguard of liberty and progress, but nationalism, which tends to poverty and conflict, is the cause of our present distresses. What the world needs is not the socialist revolution, which, on every reasonable computation of the probabilities, would only develop still further the contradictions of nationalist separation, but the liberal reforms which would create a framework within which these contradictions would not be permitted to emerge." p. 327.

27. Business Cycles—Joseph A. Schumpeter.

28. Prof. D. R. Gadgil's Introduction to N.V. Sovani's "The Population Problem in India: A Regional Approach" and D. G. Karve—Poverty and Population in India.

29. Management and the Worker—Roethlisberger and Dickson. Harvard, 1939.

30. Hayek, The Road to Serfdom, p. 31.

31. "From collaboration of this sort (of the economists with other social scientists) we might hope to obtain some new postulates for economic theory. These postulates would take the form of an affirmation that in a particular society men are driven, by social pressure, to conform to certain practices other than to seek the maximization of money gains, for instance, a preference for dealing with small independent shop-keepers, a preference for additional leisure rather than additional income, the hereditary transmission of occupations irrespective of the state of the labour market, a refusal to deal with members of certain racial or other groups within the society." —E.R. Walker (Ibid), p. 86.

32. Prof. V. G. Kale—Presidential Address, Indian Economic Conference, 1928.

33. F.A. Hayek—The Road to Serfdom, p. 159.

34. "A collectivist society can exist only under an absolute state." W. Lippmann. The Good Society.

35. F.A. Hayek—The Road to Serfdom.

36. "These assumptions lie at the root of all dogmatical treatment of the subject. It need not be said that they are literally true of no existing community. To the extent that they are approximately true of any state of society, the assumptions furnish valid explanations of its economical statics. Even then they furnish no suggestion as to its dynamical progress or development. As these assumptions do not absolutely hold good of even the most advanced societies, it is obvious that in societies like ours, they are chiefly conspicuous by their absence." Ranade—Indian Political Economy.

37. How little the Government cares for the considered opinions of Indian economists on vital problems of national economic policy was illustrated on the occasion of a Joint Statement of twenty Indian Economists who, in April, 1943, criticised, on a purely expert plane, the views of the Finance Member as to the existence of inflationary finance, and suggested methods of controlling the same. This statement duly despatched to the Finance Member, among other authorities concerned with War Finance and currency, failed to evoke even a formal acknowledgment from the custodian of the national purse and the arbiter of financial policy. It is only fair to add, however, that this lapse did not prevent the Finance Member from using most of the arguments contained in the statement in his next budget speech.

38. Ranade, M.G.—Indian Political Economy, 1892.

39. "Too exclusive a concentration on physical and chemical research tends to obscure the progress of economic science, both individual and team, which is of no less importance to the well-being of the community." Sir Richard Gregory, Presidential Address to the British Association. 1945.

40. What I have in view, in this context, is not the establishment of a Central Research Bureau but a network of regional and specialised research institutions which alone can supply essential data and verificatory analysis to the central institutions of research and planning.

41. "Like all the theoretical formulations of the classical economists the doctrine of rent while apparently simple and convincing is really based on a number of complex assumptions. That these assumptions are never actually realised is being felt more and more as a result of closer analysis of particular problems. These basic assumptions are usually grouped together

under the two heads: "Perfect Competition" and "Full Employment." I believe it may safely be said that in the matter of agricultural rents in India both of these assumptions take us very far from the realities of the situation." A Note on Agricultural Rent—D.R. Gadgil. Proceedings of the Third Conference of the Indian Society of Agricultural Economics, p. 47.

42. D.R. Gadgil—Regulation of Wages and Other Problems of Industrial Labour in India, 1943.

RATIONING OF FOODGRAINS IN THE U. P. DURING WORLD WAR II[1]

BY

PROFESSOR S. K. RUDRA, M.A. (CANTAB.)

Economic Adviser to the U. P. Government[2]

The war has brought many innovations and experiences that have profoundly affected the lives of nations. Not least of these has been its impact upon the food habits of the peoples. The intake of food has been regarded as matter of intimate individual discretion, or of tribal or group sanction at the outside. That the State should dictate the nature and the volume of one's principal item of diet, is an encroachment upon the concept of the freedom of the individual of an unparalleled description. In India, food conventions of the strictest type, imposed upon the individual by religious or caste sanction, are not unknown. Indeed, the kind of food, the times of meals, the days of fast and of feast, have been rigidly regulated for centuries past. This imposition has been readily accepted as part of religious duty. The rendering of such duty to the State, however, has not entered people's minds. But the need and technique of modern warfare respects no traditions and knows no limitations. It is mercilessly totalitarian in its range. Thus, in India too, due to the rigours of war, the State had to assume upon itself the authority to regulate the people's diet. Begun in war to meet an emergency, rationing may well continue as matter of national food policy.

Thus, rationing arises out of an emergency like famine or flood or war. Or it may be deliberately designed to achieve a given pattern of social living. The one arose in India due to war. Whether the other will follow will depend upon the nature of the State that may emerge in the future and its ideology of social justice. That the Government in India accepted the duty of preventing widespread famine has been recognised. But that it should accept the obligation to strive to achieve levels of nutritional standards, to promote national health and vigour

[1] This and the following two papers were read at the Conference—*Mg. Editor.*

[2] Opinions expressed in this paper represent my own point of view and in no way commit the Government of the U. P.—*S. K. R.*

is yet problematical. However, in recent years, both national and international Conferences and Commissions indicate that freedom from want, especially in the matter of the satisfaction of the food needs of the peoples, is function that modern administrations should discharge. The Reports of the Foodgrains Policy Committee, 1943, and of the Famine Enquiry Commission, 1945, of the Government of India amongst other weighty Government publications, clearly recommend the adoption of such responsibility by Government.

In this paper, attention will be confined to the United Provinces only. The United Provinces cover an area of about 36·6 millions of cultivated acres, and carries a population of about 55 millions (1941 census). The area under food crops[3] during 1941-42 was about 30 million acres[3], and the population at that time being 55 millions, the food area per capita comes to ·545 acres. This compares very unfavourably with that available in America, *viz.* 2·3 acres. The Province has 102,388 villages and 12 towns of over one lakh population, out of 58 (1941 census) for the whole of India.

The considerations that weighed with Government most in embarking upon a scheme of Rationing, was the desire to assist in an all-India co-ordinated policy of Army procurement of foodgrains; to impose a check on rise of prices; to safeguard supplies to civilian population; and to make them available to the poorer sections of the urban population in particular.

The idea of feeding the rural areas was not entertained. It was roughly assumed that villages were self-sufficient. Cities, however, had to be fed. Some, like Cawnpore, were of immense importance to the war effort. Laterly, satellite villages were included in the rationing programme. These are villages that are contiguous to towns and cities, and are suburban in their economy.

Heavy work, of a most exacting nature, was undertaken both at the Secretariat and in the cities and towns, preparatory to Rationing. Census of the population making allowances for normal and wartime influxes, numbering of houses, a matter of considerable difficulty under conditions of chronic congestion prevailing in the cities, was no easy task. Details about heads of family, children, ages, sex, dependents, occupation, incomes, residence, shopping centres and the like had to be secured with accuracy and expedition. Information about income was secured under two major heads, namely, below and above Rs. 100 per month. Income below Rs. 100 had to be given in actuals. Determining and printing of the "Rashan" card, assembling

[3] *Season and Crop Report.*

of staff, selection of shops and fixing of other arrangements took much labour, time and thought. Most of this work was done towards the end of 1943 and the beginning of 1944. Public sentiment was not helpful.

Rationing was introduced in 25 towns in July, 1943. It has now been extended, by degrees, to cover 49 towns. It means a total urban population of about 50 lakhs or about 10% of the total population of the Province.

Rationing was at first of partial nature. Instructions were issued to cover, in the first instance, the poorest section of the population. Beginning with 25% , it was extended by stages to cover upto 40, 50 and 60%. No provincial limit as to who constituted the poorest section of the population was laid down. Persons earning upto Rs. 30, however, were recognised as composing the lowest income group. Each District Magistrate was given discretion to fix his own limit of lowest income category. The unrationed section of the community obtained its supplies from the open market. This method was known as partial rationing. Total rationing was adopted in March 1945. This meant that in those towns and cities, where total rationing was introduced, every one had to purchase the rationed foodgrains from the specified shops on presentation of the ration card. Open markets for rationed foodgrains ceased to exist in such towns.

The system of rationing adopted was the general type. Neither the Differential, Utilitarian or the Preferential type was accepted. Probably, under the circumstances, not much else could be undertaken. Statistical data was particularly non-existent. Food habits of the people were not precisely known. Categories of the population, especially the vulnerable sections, were not defined. Indeed, never before was the want of statistical data so acutely felt by Government as during the period of this war. The Population Data Committee, 1945, has much of value to record about this aspect of Administration in India. However, the necessity to meet the demand of labour was appreciated. Labour unrest or strike would have greatly jeopardized the war effort. To this end, much help was rendered by Government, especially in Cawnpore, through the Employers' Association, for procurement purposes. Indeed, such help given to labour was acknowledged by way of computation and publication of a special subsidiary index number for Cawnpore workers catered for by the Employers' Association. This was commenced from October 1943. Concern for the maintenance of supplies for the essential services was also felt and provided for by the Administration. The Police Force, the key Municipal and public utility services, like water-works

and power-house men, and the Posts & Telegraph and railway workers, and other such bodies of men were the anxiety of the State. Later even in certain suburban villages, non-residential Government servants, like Tahsil and police officials, excluding Patwaris and Chawkidars, drawing salaries upto Rs. 100 p.m. could also obtain their supplies from the adjacent rationed town.

Railway workers constituted a special category. They were essential service. They were directly the concern of the Government of India. In the first instance, they were supplied through their own separate agency. They eventually were taken into the general Provincial provision. Their rations for much time, remained on a higher scale. Only recently have they been placed upon a common Provincial standard. For distribution purposes they still have their own shops.

The other sections of the population were treated in one block. No special regard was paid to the vulnerable sections of the community. Neither were students, who formed an appreciable proportion of the population of certain cities in particular, were placed in any differential or favoured category. The administration on the whole, did not countenance any special arrangement to meet their need. Locally, however, help was rendered. University or college or school authorities either directly or through co-operative societies secured facilities for obtaining supplies. It is interesting to note by way of contrast that in China, for all supply matters, students ranked next to soldiers. They were regarded as equal to the Police!

Differential feeding has been adopted practically in all countries, in one way or the other. Even in England, where in principle, there is no differential rationing, food was obtainable either in workers canteens or restaurants and public catering houses. Such food was off the ration. The "British" Restaurant system, supplying wholesome and cheap food, rendered great service to the community. Cochin is the only area in India known to me, where the "British" Restaurant idea was adopted. A chain of "Cochin" Restaurants was set up to popularise in particular the consumption of wheat products, penetrating even into the rural areas. In England, very particular attention was given to the vulnerable sections of the population. Heavy subsidies were provided by the State for the purpose. Indeed, it is maintained by competent authorities in Great Britain that, the masses, and specially the children and the young, were never so well fed and nourished as during the course of the war.[4] It must, however, be clearly emphasized that almost all articles

[4] *Cf. Food Control in Great Britain,* p. 160, publication 1942.

of diet were placed on the ration list in England. None of the United Nations probably have undergone such rigours and complete rationing control as have the peoples of England. It is said that these controls have become even more stringent since the end of hostilities to meet the famine situation in divested Europe. The British peoples have again set a great example!

In the U.P. only two cereals, rice and wheat were rationed. Milk, ghee, edible oils, vegetables, potatoes, eggs, fish and meat became largely unavailable due to Army demand, and to general rise in prices. It must be admitted that even before the war, the vast majority of the people in the cities could not afford these protective foods. Their diet was heavily unbalanced and consisted largely of cereals, not containing much of wheat. But our middle classes, especially those on given fixed income, even if they received dearness allowances, felt the lack of these articles of diet sever ly. Dearness allowances for low-paid Government servants went up by $17\frac{1}{2}\%$, subject to a minimum of Rs. 18. While the cost of living for them rose, varying from 268 to 361 (November 1945). Low-paid Government servants meant those drawing a salary up to Rs. 30 per month. Workers, on the other hand, it must be admitted, earned good and regular wages, inclusive of overtime and bonuses. Their expenditure on cinemas, drinks and other type of enjoyment has been apparent. It is held that they enjoyed fuller and better meals. In parenthesis it must be pointed out that it is held in certain quarters that, workers' wages, inclusive of dearness allowances, have on the whole, not kept pace with the rise in prices. It is therefore maintained that their standard of living, or diet, could not have improved. This is matter for separate study, and cannot be examined here.

The following tables show the rise in price of certain articles of diet in Cawnpore :—

	Articles	Unit	Weight	Base year price (Aug. '39—100)	Price as on Nov. 25, 1945	Index No of prices on Nov. 25, 1945
	Food			Rs. a. p.	Rs. a. p.	
1.	Wheat	Seer	19	0 1 3	0 4 11	393
2.	Birra (Bejhar) ..	,,	13	0 1 1	0 3 10	354
3.	Gram	,,	6	0 1 4	0 4 0	300
4.	Rice	,,	10	0 1 10	0 7 1	386
5.	Arhar	,,	8	0 1 11	0 4 9	248
6.	Meat (Mutton)	,,	6	0 5 6	1 4 0	364
7.	Sugar	,,	3	0 4 9	0 7 3	153
8.	Ghee	,,	18	1 1 7	3 8 1	324
9.	Mustard oil ..	,,	6	0 5 10	0 14 7	250
10.	Potatoes ..	,,	8	0 2 1	0 10 0	480
11.	Salt	,,	3	0 1 3	0 1 6	120
12.	Rent per month	,,	100	1 11 9	2 1 7	121

Weighted index number for food is 339

* Compiled from the interim labour cost of living index number at Cawnpore supplied by the office of the Labour Commission, U. P.

Fixation of the ration has been guided mainly, if not exclusively, by the position of supplies. The attainment of any nutrition standard was not contemplated. It was probably only when mixed Ata was put on the supply list that the opinion of the Public Health Department was invited. Information was obtained that at least 50 % of wheat was required to be mixed with either Bajra, Jowar or Barley in order not to prove injurious to health. Gram was mixed with Ata only in the Meerut region, 20 % gram, 30 % barley and rest wheat. Family budgets, as had been collected previously, were examined. The Family Budget Enquiry Report, Cawnpore, 1939, was especially considered. Jail diet scales were also referred to, and other information secured. But as has been already mentioned, the supreme factor in fixing the ration, was the matter of the availability of the cereals in question.

The combination of proportion of wheat and rice was permitted to be modified according to differences in the regional food habits of the peoples in the Province. Wheat ration was the same throughout the Province. Whenever, modified—mostly curtailed—it was done so uniformly. In respect to rice, however, elasticity of choice was permitted in the hill areas and in the

Benares Region[4] Basic units were worked out and are given below. For purposes of a unit a person over 12 years was regarded as full unit and under 12 as half unit. Change in age was made in September 1945. Eight years was made the dividing line between minor and adult. No sex distinction was included. These rations could be drawn at a fortnight's frequency. Accumulation of undrawn rations was not permitted.

Apart from the regular members of the household, Indian families, especially in the cities, usually have to undertake much hospitality in entertaining guests. Restaurants, hotels, boarding houses, and feeding places, while springing up, probably are not so numerous as to meet the demand. Also, social usages of the people, however, hardpressed, do not readily alter. So the problem of the visiting guest for the housewife, assumed harassing significance. Our custom also is to move in groups and not so much as isolated individuals. Celebration of festivals, marriages, births, attendance at funerals, and other items of domestic or religious matters make the family and friends foregather. Also modern needs, of various types, for business, legal, educational or medical treatment and the like occasion much visitation. In spite of the hazards of wartime railway travel in India—a feature of civilian experience particularly of the third class passengers all its own—guests became a problem. This was slowly recognised. Provision was made that either the guest could cart with himself *ata* or other rationed foodgrains, upto 10 seers per adult, or could obtain his supplies from the Town Rationing Officer, where he visited, after 3 days' interval. For the poorer sections, who probably visited the towns and cities mostly for court, marketing or pilgrimage purposes, the provision to carry grain or *ata* was not extraordinary. But for the upper and lower middle classes the arrangement was anything but convenient. Probably, they were expected to adopt the modern custom of feeding in public catering places and to avoid the feudalistic habit of planting themselves on their much perplexed hosts!

Pilgrim traffic was another notable problem in our Province. With Benares, Brindaban, Badrinath, Prayag, Hardwar and Ajodhya, lying within our confines, it entailed heavy and unusual demand upon our supplies and staff of the Rationing Department. Pilgrimage is mostly group movement and it is unlikely to abate in India for much time yet to come, privation of travel notwithstanding. Movement and influx of population from within and without the Province at certain points is considerable. Such need had to be met. Much commendable service was rendered.

[4] The Benares Region comprises the districts of Benares, Gorakhpur, Mirzapur, Jaunpur, Ghazipur, Ballia, and Azamgarh. (*Vide* Table I.)

TABLE I

Statement showing changes in the limits of ration issue per unit per day.

Year	Cereals	Ration Limit per unit per day.	Total Ration to be drawn per unit per day.
July 1943	(*i*) Ata	to 12 chh.	12 chh.
	(*ii*) Rice	to 12 chh.	
September 1943.	(*i*) Rice	to 8 chh.	12 chh.
	(*ii*) Wheat	to 6 chh.	
	(*iii*) Barley	to 6 chh.	
	(*iv*) Gram	to 6 chh.	
	(*v*) Bajra	to 12 chh.	
	(*vi*) Juar	to 12 chh.	
December 1943	(*i*) Wheat	to 8 chh.	12 chh.
	(*ii*) Barley	to 8 chh.	
	(*iii*) Gram	to 8 chh.	
April 1944	No change. Wheat	to 6 chh.	12 chh.
December 1944.	Gram, Barley, Bajra, Juar were excluded from Rationing		8 chh.
	(*i*) Wheat	to 6 chh.	8 chh.
	(*ii*) Rice	to 4 chh. (except in Benares Region.)	
	(*iii*) Rice	to 6 chh. in Benares Region	
	(*iv*) Ata	to 8 chh.	
February 1945.	Gram (in Meerut Region)	to 4 chh.	"
	Wheat	to 4 chh.	"
Total Rationing.	Wheat	to 6 chh.	8 chh.
August 1945	Rice (*i*)	to 1 chh.	8 chh.
September 1945	Wheat	to 4 chh.	8 chh.
	Wheat products	to 6 chh.	
December 1945	Wheat or Wheat products	to 4 chh.	8 chh.
	Coarse rice	to 4 chh. except in Benares Region where 6 chh.	
	Superior rice	1 chh. everywhere except Benares Region where 2 chh.	

The concession of 6 chhataks of wheat, and wheat products admissible to industrial and railway card holders and police messes, however, remains unchanged

At Hardwar for instance about one and a half lakh pilgrims assembled for bathing on 13th April, 1945.

Apart from Pilgrims, there was the perpetual question of the wandering mendicant and the parochial beggar. These constitute a peculiar feature of our mixed modern and mediaeval way of life in India. Spread of scientific and especially vocational education and institutional provision may change matters. Beggars with an abode, even if it were the shelter of a culvert, were provided with ration card.

Celebrations of certain family events, weddings, funerals and religious ceremonies were recognised. Social functions like garden parties, At Homes, index of change of social behaviour, and institutional conferences of learned societies, religious bodies or political organisations, were permitted. Guests over 50 were not allowed. This limit of 50 guests has been removed since the 19th November, 1945.

Thus, as far as possible, effort was made by the Administration to take in all these complex social features and provide for them under the limiting circumstances of difficulties of supplies, undeveloped organisation, inadequate and low-paid staff.

As for animals, it may be pointed out that unlike England, or other countries, no special provision was made or attempted. The animal population consisting of Tonga ponies, milch cattle, bullocks and buffaloes, pack animals like donkeys and camels, performing animals like monkeys and bears, pets like dogs and cats were not taken into consideration. With acute petrol shortage, greatly augmented military and civil population and greater demand for movement and cartage, it occasioned considerable difficulties for animal owners. Price control and movement of food and concentrates was the only manner in which some attempt was made to meet the situation. Preferential treatment, however, was accorded to officials in this matter. They were issued ration cards for their horses at controlled rates. These constituted, however, a fraction of the city animal population.

The cereals selected for rationing purposes were those that were in short supply. Fortunately, the U.P. lies in such range of climatic conditions and soil zones that it enjoys source of much internal supplies of a wide variety of cereals and pulses. We have in this regard a balanced economy. If we also take into account foodstuffs other than grain, like edible oils, sugar and *gur*, potatoes, all manner of vegetables, and fruit, dairy products and the like, our position is not as unsatisfactory as of other Provinces. But this position changed when our net imports of rice, which in prewar years was of about two lakh tons, ceased to come from Burma. Our position became one of deficit. Imports became necessary, Situation reached such a point that rationing had to be applied

to our cities.

Our rationing system began with control of sales of *ata* and rice. Gram has been controlled only recently. While it is not rationed, no one can purchase more than 4 chhataks of it at a time. This, however, applies only to the Meerut region[5]. Pulses have not been controlled, except in price. However, exports of all foodgrains, sugar, *gur*, potatoes, oils and oil-cakes, poultry, eggs, fish, cattle and small animals, was controlled. Even internal movement was regulated. Regional and sometime even districtwise movement was controlled. This official control over movement was introduced as occasion demanded. Often such isolated and un-co-ordinated control created much Provincial and at times even all-India difficulties while only partially solving local ones. But, undoubtedly a better grip was thus secured on food supplies.

Whether the 4 chhataks—introduced from December 1945—wheat or wheat products provision has not reached the limit of necessary nutrition is a matter which necessitates examination at the hands of dietetians. It has simultaneously to be realised that other food articles especially of the protective kind, are largely absent from the people's diet. Growing children, students and workers, constitute vital elements of the community. The preservation of their strength and healthy growth is of immense importance for the future.

For the sake of this paper, we have assumed the matter of procurement of supplies. That would be an important study, all its own. It is the process of distribution to the consumer alone that is the subject for our immediate consideration. Foodgrains were taken over from the Civil Supplies Department by the Rationing Department. These were stored in what are known as Storage Godowns. From there stuff was removed to the Central Issue godowns as and when required. Thus stuff passed from one Government Department to another. Trade was completely eliminated. Trade had been tried and found wanting. This sector of our economic structure like many others, needs rationalization. Our trade organisation while efficient, as far as it goes, fails to meet a modern exigency like famine or war. Collective action or corporative appreciation of civic responsibility is not sufficiently developed, if it is not largely absent. Serious attention requires to be focussed on this part of our national economy. Food supplies was too grave a matter to be risked under any circumstances. The Bengal famine tragedy was a grave warning for all concerned, and particularly for the Governments of the day.

[5] The Meerut Region comprises of the Districts of Dehra-Dun, Saharanpur, Muzaffarpur, Meerut, Bulandshahr, Muttra, Agra, Aligarh, Etah and Mainpuri.

Government desired to obtain monopoly control. It established this by degrees. By March 1945, wholesale dealers were entirely eliminated. This was in respect to rationed foodgrains only. Undoubtedly rice and wheat are not only the most important, but also the most remunerative of foodgrains to deal in. Several of the wholesalers were employed by Government in the Civil Supplies Department as purchasing agents and the like.

Weighment, cleaning and grading was undertaken at the storage godowns. Due to insufficiency of trained staff, much damage and loss was sustained at this point. Corruption played its part. The trained experience of the traditional dealers was wasted in the setting up of Government machinery. The "Babu" banished the "Bania." Whether he functioned with greater efficiency and honesty is debated amongst the Public. However, with experience and persistent supervision, matters have improved.

Grain at the storage godowns was maintained at level of about two months' requirements of the Regulated towns. From the issue godowns, on token or indent, rationed grain was issued to the nominated retailers. Effort was made to retain as many of the trade as possible. For the sake of proper supervision and other administrative reasons, the numbers of such retailers was much restricted. It is held that about 50% were eliminated. They could, however, deal in non-rationed foodgrains.

There was heavy casualty in the ranks of middlemen. Unemployment was heavy. It may be remarked that the middleman's profession in this country is no less overcrowded than the legal, educational or clerical. It has numerous grades of brokers and dealers, known as Dalals, Arhatiyas, Kacha and Pucca, an intricate and long chain, who link the primary producer, through various grades of grain Mandies, to the ultimate consumer in towns and cities. We have practically no social security schemes in the country. The unemployed are no liability upon government. Mobility of occupation in this country, as indeed in others, is not easy. Moreover, alternative occupations are strictly limited. Due to backward industrial development, decaying domestic industries and village crafts, the avenues of employment and service are bewilderingly few for a country of our size and population and richness of natural resources. The Bania could hardly be expected to enlist and shoulder a rifle or enter a war-time factory to handle modern tools. It was felt that he could live on his own fat. In any case, it was assumed that he could survive on next to nothing! How he did it would form interesting study.

Selection of retailers was made on the recommendation of the District Magistrate. Such retailers who were in trade before the war were selected. The idea was to cause least dislocation to recognised trade channels.

In restricting the numbers of retailers, it was kept in mind to provide each one sufficient business. A disbursement of about 1200 units per month was considered adequate.

In the location of shops, convenience factor was kept in view. Consumers, however, were not accorded any option of selection of retailers. Many old established links between retailer-consumer were thus broken. But as purchase of rationed foodgrains was strictly on cash basis, these did not matter. Credit was not involved.

Fixation of price, quality for quality, was difficult matter. But "No-profit" principle was adopted. Losses due to wastage in transit or handling or damage or deterioration due to defective storage, weevilling or dryage was charged upto Government. Supply-Finance doubtless has the accounts. The retailers were charged selling prices less 5 per cent to cover handling and transport charges and their margin of profits. The rates charged to the consumers were fixed and were exhibited at prominent places.

As long as total rationing was not introduced, open market prices were much kept in check by the rationing system. "Flooding" of the market was frequently resorted to, in order to keep rates down. A reference to the price figures of this period in one of the rationed towns as given below will make this clear:—

TABLE

RETAIL PRICES (open and

Years and Months.	WHEAT Market Price Srs. chh.	WHEAT Ration Shop Price Srs. chh.	GRAM Market Price Srs. chh.	GRAM Ration Shop Price Sr. chh.	RICE Market Price Srs. chh.	RICE Ration Shop Price Srs. chh.
1943 July	2 8	—	3 6	—	2 0	2 8
Sept.	2 8	2 12	3 4	4 0	1 12	2 8
Oct.	2 6	3 4	3 2	4 4	1 12	2 12
Nov.	2 12	3 4	3 12	4 6	2 0	2 12
Dec.	”	3 8	”	4 10	”	2 12
1944 March	3 8	4 0	5 4	5 8	2 4	2 12
May	3 4	4 0	5 12	5 8	2 8	2 12
June	3 12	4 0	5 8	5 8	2 4	I 2 4 II 2 8
Nov.	3 6	4 0	6 0	6 8	2 0	I 2 4 II 2 8
Dec.	3 6	4 0	6 8	6 8.	2 0	Sup. 1 12 I 2 4 II 2 8
1945 Jan.	3 4	3 12	6 8	6 8	2 0	Sup. 1 12 I Grade 2 4 II Grade 2 8
Feb.	3 0	3 12	6 0	6 8	2 0	Sup. 1 12 I Grade 2 4 II Grade 2 8
March	2 12	3 8	6 0	6 8	2 0	Sup. 1 12 I Grade 2 4 II Grade 2 8
May	”	3 4†	5 8	6 8	”	Sup. II 1 8 I 2 4 *II 2 8
July	”	3 4	5 0	5 8	”	—
(Latest)		3 4		4 4		II (b) 1 10

*Rice:—	I (a) 1 10	II (a) 1 8	III (a) 2 4
†Total Rationing Commences	(b) 1 4	(b) Not fixed	(b) 2 6

II ·

control) *AT CAWNPORE*

BARLEY		JUAR		BAJRA	
Market Price Srs. chh.	Ration Shop Price Srs. chh.	Market Price Srs. chh.	Ration Shop Price Srs. chh.	Market Price Srs. chh.	Ration Shop Price Srs. chh.
3 8	—	3 12	—	3 12	—
3 4	4 4	3 12	5 0	3 12	5 0
3 0	4 8	3 12	6 0	3 12	6 0
4 0	4 8	4 12	5 10 N. 6 8 O.	5 0	5 8 N. 6 8 O.
”	5 0	”	”	”	”
5 4	6 0	6 0	6 4	6 0	6 0
5 12	6 0	5 12	6 4	6 0	6 0
5 8	6 0	6 0	6 4	6 4	6 0
5 8	6 0	6 8	6 4	6 8	6 0
5 8	6 0	8 4	6 4	7 8	6 0
5 12	6 0	7 4	6 4	6 9	6 0
5 8	6 0	7 0	5 10	7 0	5 8
5 4	6 0	6 8	5 10	7 0	5 8
4 12	6 0	7 0	5 10	6 8	5 8
4 0	5 0	6 0	5 10	6 0	5 8
	4 8		”	”	5 8

IV (*a*) 2 8
(*b*) 2 10

These figures demonstrate that price control can be made effective only by adoption of well-controlled system of equitable rationing. The two have to be linked together. The chain has to be completed by the further linking up with procurement. Competition became effective. It has to be realised that procurement position, transport obstacles and constant increase in the general price-level, and dislocation of price-parity structure were heavy odds to contend against all the time in the matter of food supplies and rationing. Wholesale price trends were continuously showing a rise. *Pari passu* retail prices also rose. Had there been no rationing, there is little doubt that retail prices would have risen even more steeply than they did.

With the introduction of total rationing in most towns of the U.P. by the first quarter of 1945, all this changed. By this system Government became the sole monopolist in foodgrains. Competition was completely eliminated. Whether Government trading, unlike such trading in other countries, has proved economical, cannot be adjudged at this juncture. Total "over-all costs" will have to be taken into consideration for final profit and loss account. But the purpose of Government trading was to meet an unprecedented emergency.

It has to be acknowledged that the biggest complaint has been in the matter of quality. Frequently, it has not been the fault of the Rationing Department. Even the Civil Supplies Department of this Government has not been always to blame. Supplies from outside of *ata* and especially of rice are alleged to have much to answer for in this connection. But energetic inspection and constant vigilance has gradually made itself felt. Transport vagaries too, due to various factors, provided not inconsiderable difficulties in the work of the Department. But queues gradually disappeared. Anxieties, uncertainties and vexations slowly died down. The public became accustomed to Rationing. Taken in all, fair-minded students will readily concede that the lower categories of the population have been served. This stands to the credit of Government.

Apart from official check, non-official co-operation has been increasingly sought. At the Provincial Headquarters, there is the Food Advisory Council. This is a nominated body. It is fairly representative of various interests, including consumers. Women too have been appointed to it. Labour has been particularly well represented. Then there are the Advisory Committees in the district towns and other places. 'Attempt was made to institute even Mohalla Committees. Apart from some places, where these Advisory Committees functioned exceedingly well, taken as a whole, it cannot be pretended that they have been effective. For the most part, these Committees were infre-

quently and irregularly assembled. It is said that officials were impatient of criticism. The Provincial Food Advisory Council, on the other hand, fared differently. It met at regular intervals. Criticism was free. It was listened to, and I am of view that much of it was effective. It has, however, to be reiterated that had the local Town Committees been taken more seriously, matters would have worked a bit smoother.

For fear of adding to the length of this paper, the organisation for Rationing and the division of the Town into Areas, Sub-Areas and Sectors, the arrangement for registration for obtaining Ration Cards, the cadre of the staff, their qualifications and emoluments, while vital, cannot be delineated here.

It would be well however to dwell upon the future. It has already been mentioned that both in International Conferences[6] and in India itself authoritative opinion has been expressed that Government should abandon the *laissez faire* attitude and adopt more positive course in respect to the food supply problem of the peoples. It is held that it should be the duty of the State to see to it that the standards of nutrition of the peoples are assured and improved. Position may well deteriorate otherwise. Heavy and inescapable obligation rests upon the State. As with India, so with our Province, population is fast outrunning our sources of food supply. Even with the best effort, food supplies cannot be produced in the Province sufficiently quickly and in amounts that will meet minimum nutrition requirements. If the underprivileged are to be protected, and amongst these the vulnerable sections in particular, line of food policy will have to be declared and implemented. Every possible effort to extend and intensify agriculture, so as to improve yield, will have to be adopted. Many of our post-war schemes are directly aimed to this end. All-India targets for specific food-crops, dairy products and the like have been indicated. They have to be broken up Provincewise, down to village field, and plots. Popular administration, with fixed determination is demanded. But with this, there must be provision for equitable distribution amongst all sections of the population. System of rationing will have to be continued and extended. It implies that rural areas must also be rationed. It cannot be assumed that all is well with our villages. Careful studies point to the contrary.

Administrative difficulties would be immense. But to provide for the urban population alone does not appear to be satis-

[6] Literature is adequate on the subject. *Cf.* The Hot Springs Conference, 1943, the U. N. R. R. A. and the F. A. O. (Food and Agricultural Organisation).

factory. The entire country must be envisaged. Much heavy and careful survey work for all manner of economic data and statistical information will have to be organised and carried through, by way of preparation. We cannot undertake to ration the entire population all at one stroke. We can however aim to do so gradually. This should not be impracticable. We can start, if necessary, with certain deficit areas or with certain urban centres. Even in these areas or towns, we can select the poorest sections of the community. If our finances do not permit us to bear this burden, we can restrict our help to certain vulnerable sections only. Thus, piece-meal, the problem can be attacked.

As recent official Reports declare, we shall have to import foodgrains from abroad. For some decades to come this would appear to be an inevitable arrangement. Similarly, internally, deficit areas would have to be fed from foodgrains supplied from surplus regions. Central and Provincial buffer stocks will have to be held. All-India buffer stock of wheat of about 500,000 tons has been suggested. To this rice will have to be added. Price guarantees as suggested from various quarters, will have to be examined and implemented, when conditions warrant. It is thus that supplies will improve. In Great Britain steps have already been taken to guarantee minimum prices, two years in advance. Certain essential food products have been specified. These include cereals, potatoes, sugar-beet, fat-live-stock, milk and eggs. The Woodhead Commission in India has suggested guarantee of prices for wheat and rice and the maintenance of buffer stocks of wheat. To this list it will be desirable to add food products like milk, potatoes and plantains. These give better yield in food values per acre than most cereals.[7]

It is hoped that by improvement of nutritional levels, health and working capacity of the people will be promoted. Thus man-hours of work and its quality will increase. If this man-power is directed to economic and wholesome ends—and under planned economy this should be the purpose—direct and indirect gain would be added to the sumtotal of the national dividend. From long-range point of view, this would be sound financial policy. Assistance of both production, and possibly the subsidization of food supplies to the poorer sections of the population, would therefore prove sound in the long run. Recurring financial obligations can be assessed and provided for in our budgets for these purposes over a period of years.

[7] Cf. Dr. Burns' Note on Technological Possibilities of Agricultural Development in India, 1944.

Population control much advocated in certain quarters, may be tried. Generally speaking, this would make little impression on our masses. It is only when people are better educated and have attained certain standards of living that population control becomes effective. It is a vicious circle. But education and improvement of living standards, even if artificially assisted in certain sections of the population, would in course of time start the movement for birth control. This would then spread, in the urban areas, more rapidly than in the rural.

But it is to the positive gainful employment of manpower that we must look for with patience for the ultimate solution of the food problem. In agriculture itself and especially through industry large-scale, small-scale and cottage type, that much can be achieved. Let us hope, post-war planning, coupled with political settlement, will begin to show improvement within measurable distance of time.

OUR FOOD: A CRITICAL STUDY IN RETROSPECT AND PROSPECT

BY

K. L. Govil

University of Allahabad

The purpose of this article is to review the food position of the country during the War and make a few suggestions for improvement of our supplies in the future.

Up to the outbreak of the Second World War in 1939 nobody took a serious view of the country's food problem. About 30 per cent or roughly 100 million of the population of the country was on malnutrition, but it seemed to be nobody's concern to look at the problem with sympathy and imagination. Neither the State nor the people, except certain 'professionals' paid any attention to it. The problem was forced on us in all its bearings only in 1943 after the death of millions of people in Bengal and a countrywide suffering.

The Crop Planning Conference convened by the Government of India in 1934 was inclined to think that acreage under wheat and rice should be reduced. Probably the Conference was not far wrong in its judgment as wheat was selling at Rs. 2-4-0 a maund in the Hapur Market, and in 1931 the Government of India had to impose duty on imports of wheat and wheat products to protect the Indian grower. On an average, India imported 1½ million tons of rice from Burma mostly to feed Bengal, Madras and Bombay presidencies. The Bengal cultivator found it more profitable to produce jute in spite of the recommendations of the Bengal Jute Enquiry Committee of 1933-34 to reduce acreage under jute cultivation. In the United Provinces increasing attention was paid to the growing of sugarcane since the grant of tariffs to the sugar industry in 1932, and in Bombay and the Central Provinces to that of cotton. The Planning Conference did not consider the question from the point of view of the nutritional needs of the country. It was guided by money considerations, by the purchasing power of the people and by imports or possibilities of imports in case of need. The invulnerable British fleet could be relied upon to stand by us in the hour of our need. Therefore the main conclusion of the Crop Planning Conference was to prevent the over-production

of wheat and rice and try to find out more remunerative crops for the cultivator.

Price Trends

At the outbreak of the war in September 1939, the speculator gave a little push to the price movement and it registered an upward tendency. The price of wheat in the Hapur Market rose from Rs. 2-6-9 per maund in the first week of August, 1939 to Rs. 3-15-3¼ pies per maund in the first week of December 1939. The harvest price of 1939 at Hapur was below Rs. 2-8-0 per maund, that of 1940 at Rs.3-1-7 and of 1941 at Rs. 3-4-4 (average of April, May and June). In the latter half of 1941 the prices showed a marked upward tendency, but by no means, alarming. The fact is that the Government of India did not look at the problem with seriousness. On the other hand, it was felt that the rise in agricultural prices would mean a little relief to the poor cultivator who had suffered long and severely as a result of the economic depression that set in 1929. A policy of drift and do-nothing was pursued by the Government although bad omens were visible even to the naked eye on the eastern horizon of India. At the first two Price Control Conferences held in October 1939 and June 1940 it was decided not to impose any restrictions on the rise of prices. At the Third Conference held in October 1941, in spite of a clear rising tendency of prices some of the members were in favour of further rise and against the import of rice from Burma.

The attitude of Japan was growing hostile and in August 1941 her assets were frozen. To check the rising tendency the Government of India reduced the import duty on wheat to a nominal sum of 2 annas per cwt., but it was all in vain in view of the difficulties of imports from foreign countries. In November 1941 the Central Government fixed the price of wheat for Hapur and Lyallpur at Rs. 4-6-0 per maund, but the trade was looking bullish and hoped to get better prices. The Government of India was compelled to revise its price policy in March 1942 and raise it to Rs. 5 a maund, but the control was ineffective. It should have occurred to the Government that price-control without control over supplies is meaningless. The tendencies in a rising market are that while the seller withholds supplies, the buyer is anxious to purchase beyond his means and requirements. The trade was convinced that the Government did not have grip over the situation as it possessed no stocks.

Government Control

The food problem began to take a serious turn from the beginning of 1942 and in May of the same year the Government

passed the Foodgrains Control Order. Government control on movements of foodgrains became more marked. But it was too decentralised. Every district magistrate was given power to stock foodgrains and regulate their movements to and from his district. The result was that the deficit districts suffered scarcity even in a surplus province now declared deficit province like U.P. The Provincial Governments began to take steps as it suited their respective convenience without regard to the all-India problem. In fairness to the Provincial Governments it must be said that the Fourth Price Control Conference held in February 1942 advocated free inter-provincial trade and re-affirmed that price-control should be left to the provinces. It can, therefore, be said that there was no co-ordinated policy of the Government. Like the ordinary law and administration the Central Government left control of food to the provincial governments and the provincial governments to the district magistrates who are supposed to be qualified for any emergency. These magistrates had neither the technical qualifications nor any experience of this kind of work. The result was general inefficiency and corruption. The political disturbances of August 1942 and after, simply paralyzed the transport system and it further added to our troubles.

The worst was yet to come. Food became "news" for the press. The Government of India realised the gravity of the situation and the lack of a coherent policy in its administration. A Food Department was created by the Central Government in December 1942 which made a request to His Majesty's Government to import into India one million tons of wheat of which hardly 250,000 tons were imported and of this stock only about 50,000 tons were available for civil consumption. Another feature was the setting up of purchasing agencies for wheat in the Punjab by the Punjab Government as well as the deficit provinces and the army. The U.P. Government also set up purchasing machinery in the province.

The Basic Plan

The Government felt the need of taking possession of stocks of wheat and beaten by the trade it was compelled to decontrol the maximum statutory price of wheat imposed in December 1941. After a sharp rise the price steadied down at about Rs. 9-10-0 per maund in the producing areas. The First Food Conference, convened immediately after the creation of the Food Department, formulated a 'Basic Plan' under which all Provincial Governments and Indian States were required to declare the 'Target figures' of surpluses or deficits in their respective areas. The 'Surplus' provinces minimised their sur-

pluses and the 'Deficit' provinces exaggerated their deficits. After some hesitation the Government of India worked out the 'actuals' for the operative basis of the Plan. Yet another difficulty was to compel surplus provinces to deliver the quantities they had agreed to deliver.

FREE TRADE POLICY

Meanwhile the Bengal situation was deteriorating and in their nervousness the Government of India inaugurated the 'Free Trade Policy'. Rice and other grains began to flow to Bengal from the neighbouring provinces and the agents of the Bengal Government offered such high prices that the other provincial governments deemed it necessary to impose restrictions on movements of grain from their provinces, thus forfeiting the object of the Free Trade Policy. While the Central Government complained of obstruction and lack of co-operation on the part of the provincial governments, the latter accused the Centre of hasty and injudicious action. The Government of India had to withdraw this measure.

FOODGRAINS POLICY COMMITTEE

In July 1943 the Government of India appointed the Foodgrains Policy Committee to examine the food situation of the country and make recommendations, both of policy and for administration, for securing for the duration of the War, maximum supply, equitable distribution and proper control of prices in relation to foodgrains. Their Report is a valuable document on the subject. The main recommendations of the Committee are:

1. An increase in the available supplies.
2. An improved procurement machinery.
3. Extension of rationing.
4. A general extension of the principles of statutory price-control.
5. A general overhaul of the machinery of Administration, and a readjustment of the relations between the Provinces and the Centre.

Let us briefly examine each recommendation and see to what extent effect has been given by the Government to these recommendations.

PRODUCTION

For centuries India has been one of the principal grain producing countries of the world. Out of the total world production of foodgrains (excluding Russia) of 245,225,000 tons in 1936, India contributed 55,481,000 tons or approximately 22·6 per

cent of the total yield. The total area of cultivable land in India, excluding the forest area of 89 million acres, is about 435 million acres. The total gross cropped area, sown annually, approximates to 298 million acres, of which about 80 per cent is under food crops and the rest under non-food crops. The principal foodgrains are rice, wheat, jowar, bajra, gram, barley, maize and pulses. According to Sir Manilal B. Nanavati, while the index of population in British India (excluding Burma) has moved upto 138 in 1939-40 from 100 in 1891, the index of land under cultivation rose to 119 only and that under foodgrains still lower at 114. The share of land per head under cereals has, therefore, come down as follows :—

1921	·86 acres
1931	·79 ,,
1941	·67 ,,

It is estimated by expert opinion that under the present standard of cultivation 1 acre of land per head under cereals should provide enough food for the population. Is it possible? We must either improve the productivity of our land by 'providing more irrigation facilities, artificial manures, improved tools, better seeds, consolidated farms, etc. or bring new land under cultivation or do both. There is room for intensive as well as extensive cultivation. Dr. Burns in his note on the Technological Possibilities of Agricultural Development in India has given a very hopeful picture. For example in the case of rice he says that, "at a conservative estimate, these yields can be increased by 30 per cent, *viz.*, 5 per cent by using improved varieties, 20 per cent by increasing manures, 5 per cent by protecting from pests and diseases." (page v). According to the same authority the present average outturn of wheat of 640 lbs. per acre can be increased, with proper facilities, to an yield of 1200 lbs. per acre for irrigated wheat and 600 lbs. for *barani* (unirrigated). The Punjab and U.P. yields of wheat at present are :

	Irrigated	*Unirrigated*	*All-over yield*
Punjab	967	572	738
U. P.	1200	800	786

He has shown possibilities of improvement for other crops as well.

Again, the Memorandum of the Imperial Council of Agricultural Research estimates the culturable waste land of the country at 171 million acres which includes groves, grazing and grass lands. How much of this land—a considerable portion of

which may be arid or eroded or overgrown with kans—can be brought under plough needs a thorough survey. The Khareghat Report recommends an expenditure of Rs. 75 lakhs for this kind of survey which is worth while to undertake. We believe that a certain portion of this culturable wasteland can be brought under plough if cultivation of this land is done on capitalistic basis. Without the sinking of large capital, either by the State or by private enterprise, these tracts cannot be made arable.

The same report has fixed the following targets to be attained in 15 years to solve the food problem of the country :—

Present yield	(Million tons)	Should increase by
Cereals	60.0	10%
Pulses	7.5	20%
Fats and oils	1.9	250%
Fruits	6.0	50%
Vegetables	9.0	100%
Milk	23.0	300%
Meats, Fish and Eggs	1.5	300%

Are these within the range of possibilities? Perfectly, if the Government is really serious about the job; but if the things move as slowly as given below even during the war-time when lakhs of people have died of starvation and there is a general malnutrition in the country, we do not expect considerable improvements. With the return of normal foreign trade, Burma will export her rice and Australia her wheat. The Government of India, unless replaced by a strong and imaginative National Government will lapse into a deep slumber as it did in the first post-war period.

Sir Jogendra Singh, Member in charge of Agriculture, addressing the Fifth All-India Food Conference on January 30, 1945, said, "We have so far not been successful in our endeavours to secure an adequate number of tractors for ploughing. In 1944 we indented for 151 but so far only 9 out of the 22 eleased have been shipped from the United States of America." Similarly the Foodgrains Policy Committee recommended in August 1943 that in the first year of their recommendation 1½ million tons of foodgrains should be imported into India and later on 1 million tons every year during the war. But between October 1943 and January 1945 only 1,100,000 tons of foodgrains have been imported.

From the nutritional point of view our diet has always been very poor, and much more so at present when due to military demands, fruits, vegetables, eggs, fish and milk are not within the reach of even upper middle class families in this country. The total requirements of food and the amounts available in the country are set forth in the following table[1] :—

	(Ounces per day per adult) (or consumption unit)		Total quantities in million tons	
	Required for a balanced diet	Available	Required	Available
Cereals	18	17.5	54.0	52.5
Pulses	3	2.5	9.0	7.5
Sugar	2	1.8	6.0	5.3
Vegetables ..	6	3.0	18.0	9.0
Fruits	2	2.0	6.0	6.0
Fats and Oils ..	1.5	.6	4.5	1.9
Whole Milk ..	8	1.5	32.0	6.3
	per capita			
Butter milk ..	..	3.0	..	12.5
Meats, fish and eggs	2.3	0.5	6.0 to 9.0	1.5

What is therefore, needed is an all-round agricultural drive with scientific crop planning. At present our agriculture and industries are inhibitive instead of being complementary to each other. It is a vicious circle. Thirty per cent of the working population on land is estimated to be superfluous. To bring about improvement in land this surplus population should be transferred to other occupations, *viz.*, industries, trade and services, etc.

PROCUREMENT

The average annual yield for the last three agricultural years was 55,253,000 tons as announced by Mr. Amery, Secretary

[1] *Kharegbat Committee Report* (page 17.)

of State for India, on March 22, 1945, in the House of Commons. This yield is spread over the whole length and breadth of this country and is produced by about 50 million units. Most of the Indian farming is subsistence farming on uneconomic holdings. To collect these small surpluses under war conditions when prices of agricultural and non-agricultural goods reached such heights, is not an easy task. It will have to be admitted that the lot of a certain section of the cultivators has improved due to abnormal rise in agricultural prices. He has suffered on account of rise in the prices of non-agricultural goods and cattle, etc. Yet on balance he has decidedly gained. This gain may be dissipated if not taken care of. The problem of food in India is mostly the problem of the towns and of the non-agricultural population in the villages and industrial and mining centres. There is no special class of cultivators in the country who produce for the markets only. It is why procurement is difficult.

The Government may either requisition all foodgrains and then distribute food according to need, or offer inducement to the cultivator to bring forth his surplus and regulate purchases of these surpluses in the *mandis*. In a Government like ours requisitioning is not practicable. The other alternative is, therefore, practised. The Government should arrange sale of building materials at concession rates, particularly for construction of wells and tanks. Silver and silver coins, brass utensils, agricultural implements, cloth and other goods should be made available to the cultivator at reasonable prices. Lastly the purchase machinery should be improved. It must be honest and efficient.

RATIONING

It necessitates adequate supplies and efficient and honest machinery to distribute food. Unfortunately the government machinery is woefully lacking in efficiency as well as honesty. The *bania* has been substituted by *babu* (petty official) who is worse than his predecessor. A thorough enquiry should be instituted by the State to determine the extent of illicit gains made by this class. The target of the Gregory Committee was to put all towns with a population of a lakh or over on total rationing basis. We had only 58 such towns according to the census of 1941. Some of the provincial governments, like the U.P., resisted this recommendation of the Centre, but the bad *rabi* crop of 1944 in the province forced this province to approach the Centre for supplies, and in the bargain, it had to agree to introduce complete rationing in towns, as it was in the Bombay and Madras presidencies. The scheme is being extended to smaller towns as well. On the

whole, it is working satisfactorily, although there are complaints. here and there, of bad stuff, delays in attending to complaints and general officiousness. Public co-operation is neither genuinely sought nor spontaneously forthcoming in the right spirit. Only a national government can change the outlook and weed out corruption.

Statutory Price Control

The Government of India accepted the recommendation of the Foodgrains Policy Committee for fixation of the statutory price of all major foodgrains in all provinces, and a similar control of an increasing number of non-agricultural commodities, particularly of those which are necessary to the cultivator. The Government announced to fix up prices first on a provincial basis and then on a regional basis. Their conception of a statutory price-control is to fix prices for the crop season, based on a fair return to the cultivator. The Government of India should co-ordinate statutory prices throughout India with a view to the eventual building up of an all-India Price Control.

The Food Department had set up a Price Advisory Committee under the chairmanship of Dr. Gregory, with non-official members to advise. The Government fixed the price of wheat in 1944 for the season 1944-45 at Rs. 9-8 at the primary assembling markets in the Punjab and Sind and at Rs 10-4 in the United Provinces. Maximum prices for barley and gram were fixed at 7/10ths and 8/10ths respectively, of the maximum for wheat. The provincial governments concerned accepted these decisions. Price fixation of rice, with numerous qualities and differing costs of production in different areas bristles with difficulties. Therefore, it was not attempted. Only the statutory price for coarse rice in the Punjab, U.P. and N.-W.F.P. was fixed at Rs.13-8. To assure the cultivator of a steady demand for his produce the Government of India has guaranteed to purchase all wheat of fair average quality offered in the assembling markets of the Punjab, U.P. and Sind at Rs. 7-8 a maund. Further to encourage diversion of land from cotton to millets the Government of India guaranteed to purchase all bajra and jowar in 1944-45 at Rs. 6 and Rs. 5-8 respectively, in the main producing areas throughout India except in Bombay and Hyderabad where some form of compulsion was exercised on the cultivator to grow food crops. Thus the Government has fixed the ceiling as well as the floor prices. But in places where rationing has not been introduced prices shoot up very high. Before May 1945 wheat was selling at 2 seers per rupee in the open market at Allahabad.

Conclusion

We may conclude that the food problem is vitally linked up with the economic condition of the people. A large number of people have been living on the starvation level. To say nothing of protective foods, like milk, eggs, fish, fruits and vegetables, millions of people do not get even two meals a day. Therefore, for long range solution, improvement of the economic condition of the masses is absolutely essential. The basic weakness in our economic system has been the failure to utilise our large and varied resources so as to foster an all-round economic life. It is why we observe a wide gap between the actual economic development and the potential resources of the country. The remedy lies in a planned economic devel opment of agriculture and industries, trade and transport, banking and insurance, etc. etc., with the sole end of improving the standard of living of the masses and not only of the classes. The Planning Authority should undertake crop-planning on an all-India basis. Bengal suffered from surplus jute, U.P. and Bihar from surplus sugar and Deccan from surplus cotton. Not losing sight of the importance of commercial crops greater attention should, at present, be paid to food-production. Even at present about 80 per cent. of the land under cultivation is under food crops. *What is needed most is to improve the yield of crops, for which there are vast possibilities.*

THE INDIAN FOOD PROBLEM

BY

DR. R. BHAN

Principal, Amar Singh College, Srinagar

Food problem became very acute during the period of War. The twin problem of scarcity and high prices affected adversely the interests of the mass of consumers throughout the country and the Government machinery had to be oriented to elaborate measures for removing or at least minimising the grave difficulties caused. The Bengal Famine fully demonstrated the extremely disastrous effects of a bad food situation caused by circumstances both beyond and within human control. The food problem as such has so far been surveyed and attempted to be solved only from one and immediately the most important point of view, *viz.*, that of scarcity and high prices. It has thus resolved itself into problems of procurement and distributions of supplies and price control. Now that the hostilities have ceased and hopes for the resumption of a normal life, where economic forces will have a free and full sway, are entertained, the solution of the food problem will admit of a new approach and necessitate the study of all economic factors which will have a bearing not only on the period of transition from war to peace but on times much ahead of us. It is not only the considerations of the consumers' interests and the problem of scarcity and high prices but those of the producers' interests, necessitating in turn the solution of the problem of surpluses and low prices which will loom large in the long range policy. The onslaught of the great depression on the agricultural economy of the World are too fresh in minds to need recapitulation. But it will be necessary to note that the Indian Agriculturist suffered most during that period, when the effects of price fall were made more injurious by the disequilibrium as a result of divergence between prices and costs. While the industrial exporting countries tried to ward off the onslaught by a reduction of production and benefited by the favourable barter terms of trade, the price scissors operated against India and imposed an additional burden to that of low agricultural prices and inelastic costs. The maladjustment caused during the period following the war of 1914-19, which brought about this state of affairs should be avoided at any cost. It has been suggested that the world shortage of foodstuffs will continue for sometime but

the pace of scientific progress and the reaction of agriculture to an intense and active demand for its products is sure to reduce this period. A planned programme for the production of food and other agricultural products in every country is thus an obvious necessity. But these national plans must fit in an international plan, especially in the case of the chief staples. The United Nations Conference on Food and Agriculture has outlined the scope of international commodity arrangements so as to promote the expansion of an orderly world economy and has recommended that "(a) such arrangements will include effective representation of consumers as well as producers.

(*b*) Increasing opportunities will be afforded for supplying consumption needs from the most efficient sources of production at prices fair to both consumers and producers and with due regard to such transitional adjustments in production as may be required to prevent serious economic and social dislocation.

(*c*) Adequate reserves will be maintained to meet all consumption needs.

(*d*) Provision will be made when applicable for the orderly disposal of surpluses."

The creation of an international organisation in this behalf is thus an obvious necessity. Effective international co-operation in this as well as other economic matters presupposes political co-operation and goodwill among the United Nations. Thus, though the arrangements for supplies, distribution and price control of the chief foodstuffs shall have to continue for some time more on selected and approved lines, the food problem in India necessitates the formulation of a long-range policy, national and international in scope and operation.

The food policy in India has been analysed by the Famine Commission (1945) and it has laid down the main lines as given below.

(*a*) Government responsibility for increasing food resources and improving the diet of the people.

(*b*) Self-sufficiency in cereals.

(*c*) Control of price of cereals to ensure a reasonable return to the cultivators.

(*d*) Increased production of certain protective and supplementary foods.

(*e*) The reorganisation of Agriculture.

(*f*) The Development of Industry.

It has thus been made abundantly clear that the Government must take upon itself the full responsibility of making available for the consumers adequate food resources and improving their dietary standards as also ensure a reasonable return to the producers. This will involve elaboration of measures for the scienti-

fic planning of crop cultivation, control over exports and imports, equitable distribution of foodstuffs on the one hand, and the reorganization of agriculture and the development of industries in general and Cottage and Rural industries in particular, so on to raise the standard of living of the masses, among whom the agricultural classes count most, on the other. The reports of Dr. Burns has pointed out the technological development in the field of agriculture and this as also the Government of India report on the development of agriculture (Khareghat Report) are valuable documents, for effecting the needed reform. But all these reports, whether authenticated by experts or blessed by the Government of India reduce themselves to platitudes and have only an academic importance unless the administrative machinery is fitted up and directed to take definite and decisive steps. The agricultural plan, referred to above, involving a capital expenditure of Rs.1000 crores and a recurring annual expenditure of Rs. 25 crores over a period of 15 years ought to have been supplemented by a financial plan to make it workable. It is hoped that the Famine Commission Report so well elaborated will not remain a classical reference book for academicians but will be followed by administrative measures to implement the recommendation.

Regarding the stabilization of prices and ensuring a fair return to the cultivators several recommendations have been made and the creation of buffer stocks has been suggested. In this connection an experiment has been so successfully worked in the Kashmir State that it admits of being recommended to other regions in India. In the Kashmir Province the Government administers the Food Department and requisitions from every landowner a certain previously stipulated quantity of paddy produced by him. The quantity requisitioned varies in proportion to the area owned and cultivated and makes enough provision for the personal requirements of the landowner. The prices paid are reasonable and take account of distances from the market. The Department of Food makes advances of money at the time of land revenue payment (Kharif and Rabi). The quantity requisitioned has been increased during the War period to enable the Government to meet the increased demand of the Consumers. The paddy thus collected throughout the valley is distributed to the consumers in the City of Srinagar and other places under a rationing system. The system was started about 24 years back and its success has been demonstrated during the period of scarcity while its usefulness to the producer has been borne out during the period of depression when the producer was ensured a fair return for a part of his produce.

Regarding the organisation of agriculture it may be remarked that the problem of Indian agricultural is so tremendous that

mere palliatives cannot take us far. The problem of land reform should therefore be taken immediately. It is really surprising that the members of the Famine Commission should not have been able to find agreement with one member Sir Manilal Nanavati and have even given their blessings in the permanent settlement, which is indeed a retrograde and reactionary system.

INDIAN ECONOMIC ASSOCIATION

Meeting of the Executive Committee

A meeting of the Executive Committee of the Indian Economic Association was held at the residence of Sir Manoharlal, Lahore on the 31st December ,1945, at 7-30 p.m. The following members of the Executive Committee were present:

1. Prin. D.G. Karve—*Chairman.*
2. Prof. C.N. Vakil.
3. Prof. S.K. Rudra.
4. Dr. L.C. Jain.
5. Dr. Gyanchand.
6. Prof. D.R. Gadgil.
7. Dr. P.S. Loknathan.
8. Dr. Anwar Iqbal Qureshi—*Secretary and Treasurer.*

1. The minutes of the last meeting were read and confirmed. The report for the year ending 31st May, 1944 was considered and approved for being placed before the Annual General Body meeting and it was decided that the audited statements of accounts be circulated to the members of the Executive Committee and after their approval be printed in the April issue of the *Indian Journal of Economics.* The approval of the General Committee should be taken for this.

2. The Committee resolved that the following suggestions regarding the subjects for discussion at the next conference be made to the General Body.

   1. The theory of location of industries.
   2. Stabilization of prices.
   3. Economic regionalism.
   4. Tax structure in India.
   5. State regulation of wages.
   6. Foreign trade policies.
   7. Post-war banking development.

3. The Secretary and Honorary Treasurer was authorised to purchase the National Savings Certificates to the extent of Rs. 3,000 or so in the name of the Association.

Anwar Iqbal Qureshi
Hon. Secretary

D. G. Karve,
Chairman

INDIAN ECONOMIC ASSOCIATION

Annual General Meeting

The Annual General Meeting of the Indian Economic Association was held in the Punjab University hall on 1st January, 1946 at 10-30 a.m. with Principal D. G. Karve in the Chair. The following members were present :—

1. Mr. Parimal Y. Mehta.
2. Mr. M. Hasan.
3. Mr. A. R. Bhat.
4. Mr. V. G. Sahasrabudhe.
5. Mr. Sharad S. Marathe.
6. Mr. N. Y. Sovani.
7. Mr. Raj Narayan Gupta.
8. Mr. Shanti Bhushan.
9. Mr. V. M. Paranjape.
10. Mr. Shanti Swaroop Dhingra.
11. Mr. Shadilal Bhalla.
12. Mr. P. C. Malhotra.
13. Mr. Pannalal.
14. Mr. S. K. Rudra.
15. Mr. D. Ghosh.
16. Mr. Suresh Chandra.
17. Mr. B. P. Mohan.
18. Mr. Hardit Singh Dhillon.
19. Mr. R. Balkrishna.
20. Mr. L. N. Gupta.
21. Mr. S. L. Pasricha.
22. Dr. Tarachand Jain.
23. Mr. Dil Mohammad Qureshi.
24. Mr. R. C. Saxena.
25. Mr. B.N. Pal.
26. Mr. R. N. Poduval.
27. Mr. M. S. Adisheshiah.
28. Mr. Bhagat Singh Sondhi.
29. Mr. Jagdish Chandra Luthe.

30. Mr. D. K. Malhotra.
31. Mr. M. H. Vaswani.
32. Mr. J. J. Anjaria.
33. Mr. Gyan Chand.
34. Mr. S.P. Chablani
35. Mr. H. Ghosh.
36. Mr. N. S. Pardasani.
37. Mr. P. S. Loknathan.
38. Mr. J. S. Guleni.
39. Mr. S. S. Shukla.
40. Mr. D. L. Gupta.
41. Mr. L. N. Thaker.
42. Mr. P. S. Narayan Pershad.
43. Mr. Bashir Ahmed Khan.
44. Mr. D. R. Gadgil.
45. Mr. C. N. Vakil.
46. Mr. D. G. Karve.
47. Mr. A. I. Qureshi.
48. Mr. Bhan.

1. The minutes of the last Annual General Meeting held at Delhi were read and confirmed.

2. The report of the Honorary Secretary and Treasurer for the year ending 31st May, 1945 was considered and approved. It was decided that the statement of accounts, after the approval of the Executive Committee, should be published in the April issue of the *Indian Journal of Economics* for the information of the members and should be placed at the next General Body meeting for their approval.

3. The following subjects were selected for discussion at the next conference :

1. The theory of location of Industries.
2. The land system in India.
3. Tax structure in India.

4. Prof. S. K. Rudra, Economic Adviser to U.P. Government was unanimously elected as President of the Association for the year 1946-47.

Dr. Anwar Iqbal Qureshi of the Osmania University was unanimously re-elected as Secretary and Treasurer for the year 1946-47.

5. The following persons were elected as members of the Executive Committee :

1. Prin. D. G. Karve—*Poona.*
2. Prof. D. R. Gadgil—*Poona.*
3. Prof. Gyanchand—*Patna University.*
4. Dr. A. K. Das—*Dacca University.*
5. Dr. L. C. Jain—*Punjab University.*
6. Dr. L. K. Hyder—*Aligarh University.*
7. Dr. V. K. R. V. Rao—*Delhi University.*
8. Prof. C. N. Vakil—*Bombay University.*
9. Prof. R. N. Poduval—*Annamalai University.*
10. Prof. J.P. Niyogi—*Calcutta University.*
11. Dr. R. Balkrishna—*Madras University.*
12. Dr. P.S. Loknathan—*Delhi.*

6. It was resolved that the Hon. Auditor Mr. Ghulam Dastagir be appointed Honorary Auditor for the year 1946-47.

7. The following gentlemen were elected to represent the Association on the Editorial Board of the *Indian Journal of Economics* :

1. Prof. V.L. D'Souza.
2. Prof. J. J. Anjaria
3. Dr. B.N. Ganguli.
4. Mr. D. Ghosh.

8. Prof. S. Kesava Iyengar moved the following propositions :

(1) That elections to the Executive Committee of the Association and the Editorial Board of the Journal be by ballot voting, after calling for nominations.

(2) That final proofs of articles and papers published in the Journal be sent to the authors beforehand for scrutiny and correction.

(3) That in each Conference Number of the Journal, the latest list of members of the Association be printed.

(4) The submission of papers to conferences and participation in discussions at conferences be confined to members only.

Regarding the first, it was decided that as it was a constitutional amendment, it required proper notice. Therefore it could not be considered.

Regarding the second and third, it was decided that the attention of the Managing Editor should be drawn to this.

As regards the fourth, it was pointed out that this procedure was already being followed.

9. A vote of thanks was passed to the Punjab University the organisers of the Conference and the relieved office bearers of the Association.

D. G. KARVE
President

ANWAR IQBAL QURESHI
Hon. Secretary

THE INDIAN ECONOMIC ASSOCIATION

Report for the year ending 31st May, 1945

The number of members on 31st May, 1945 was 195 as compared with 165 last year. One life member was also enrolled during the year.

The financial condition of the Association has shown a marked improvement over that of last year. The closing balance on 31st May, 1945 was Rs. 5,089-15-11 compared with Rs. 4,120-13-2 last year. The Association, however, has to pay Rs. 302-7-1 to the *Indian Journal of Economics.*

The membership of the Association has shown a net increase of thirty members during the year and I am confident that efforts made for enrolling new members during the current year will give us still better results.

I am deeply indebted to the President and members of the Executive Committee for their help and co-operation. My thanks are also due to the Managing Editor of the Journal for his cordial co-operation and his efforts to bring out the Conference Number well ahead of the Conference, and the members of the Association for the sympathetic consideration they have accorded me throughout the year.

15th December, 1945
Osmania University,
Hyderabad' Deccan

ANWAR IQBAL QURESHI
Hon. Secretary &
Treasurer

THE INDIAN ECO-

Receipts and payments for

RECEIPTS	Rs. a. p.	Rs. a. p.
To Opening Balances:		
Fixed Deposit with B. P. C., Ltd. Bombay ..	1,278 10 0	..
Current Account with the Central Bank of India, Delhi	2,842 3 2	4,120 13 2
To Interest and Other Receipts:		
Interest on Fixed Deposits B. P. C., Ltd., Bombay		22 5 0
Subscriptions from 195 members		2,340 0 0
Subscription from one life member		250 0 0
Subscription from one Associate		6 0 0
Additional amounts paid by members		4 12 0
Refunds from Managing Editor		196 0 0
Sale of reports etc.		2 0 0
Half profits for 42-43, 43-44 (as per statements) ..		320 13 7
Difference in Books		2 0 0
Total ..		7,264 11 9

Jambagh, Hyderabad (Dn.)
Dated 10th February, 1946

Examined and Found Correct

G. DASTGIR
B. COM., B.A.,
Registered Accountant & Auditor

NOMIC ASSOCIATION

the year ending 30th May, 1945

PAYMENTS				Rs.	a.	p.	Rs.	a.	p.
BY DEPARTMENT OF ECONOMICS, ALLAHABAD UNIVERSITY FOR:—									
125 Members at Rs. 9/-				1,125	0	0			
70 Members at Rs. 8/-				560	0	0			
1 Member at Rs. 4/-				4	0	0			
1 Life Member at Rs. 8/-				8	0	0	1,697	0	0
Bill No. 1161 printing charges	271	9	0						
Bill No. 1162 cost of paper ..	66	12	0						
Bill No. 1141 towards January 1945 Issue	100	0	0	438	5	0			
Miscellaneous Accounts. (As per Secretary's letter)				40	0	0	2,175	5	0
Add last year's Credit Balance (As per statement)				71	8	8	2,246	13	8
Less Credit Balance for the year. (As per statement)				302	0	1	1,944	13	7
Postage and Telegram (including last year's)				113	12	0			
Clerical charges Last year's)				85	0	0			
Printing & Stationery				23	0	0			
Bank Charges				6	4	0			
Packing Charges				1	14	0	229	14	3
BY CLOSING BALANCES:									
Fixed Deposit with B. P. C. Ltd., Bombay ..				1,300	15	0			
In Current Account with Central Bank of India				3,699	1	8			
Cash with the Secretary				89	15	3	5,089	15	11
Total ..							7,264	11	9

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Nug, K. C.
Nanavati, Sir M. B.

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Sreeraman, S. P.
Sodhbans, P. S.
Sharma, T. D.
Secretary, Punjab Co-operative Union, Lahore
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Zacharia, C. W. B.

REPORT ON THE WORKING OF THE INDIAN JOURNAL OF ECONOMICS FOR THE YEAR 1944-45

1. This year, I am glad to record, has been a year of record-breaking in almost every respect. High levels have been reached regarding profits, number of members and subscribers, number of published articles, number of reviews and so forth.

2. In the estimated budget for the current year the profit was put in the neighbourhood of Rs. 263, but the actual profit, after meeting certain items of capital expenditure and increasing the bulk of the journal, came to Rs. 581-6-1.

3. Efforts were made to increase the number of members and subscribers and they have yielded results. We have a record number of purchasers on the list this year. The number of members and subscribers which was in the neighbourhood of 300 during the last two years has now been looking up to nearly 400.

Year	*Members*	*Subscribers*	*Total*
1944—45	187	202	389
1943—44	151	161	312
1942—43	164	153	317

4. In this year the policy of securing good advertisements was vigorously followed. The number of advertisements and income therefrom have surpassed all past figures. In the estimated budget income from this source was placed at Rs. 400. I am glad to record that this figure has been pushed up by 50%. If the Journal has been able to produce bulkier issues, to publish a large number of articles than before, to meet the rising cost of almost every item, and even then to show a high profit, this has been accomplished to a great extent because of income from this source. The figure was less than Rs. 60 in 1942-43 and about Rs. 100 last year. It has gone up to Rs. 600 this year.

5. The number of articles published has reached record figure. The articles published this year are about 40 (excluding Conference Papers) whereas it was only 21 last year. We have thus improved the Journal by 100% in this regard also.

6. It had been a standing complaint of the Association that we published the Journal very late. I had the occasion

to make efforts to remove the cause of this complaint and we could publish each issue before 15th day of the month to which it belonged (which was the date fixed for publication.)

7. It was the general feeling that the reviews are a neglected portion of the Journal, and the number of books received but not reviewed was large. Improvement has been made in this direction also. I am happy to say that of the 87 books received during the year 70 have already been reviewed and the remaining reviews are expected shortly. Thus the review section of the Journal has considerably improved.

8. It would have been impossible to achieve all this progress had the paper famine and the Paper Control Order coming at its heels would have affected us as adversely as they generally did; but efforts were made to escape from them with the result that we are one of the very few Journals of this country which have been exempted from the Paper Control Order.

9. The Journal is thus in a happy, progressive and prosperous position. Much of the credit for all this goes to the past Managing Editors and in no small measure have the fruits of their labours now been gathered. The outgoing Editorial Board has also been very helpful, accommodating and considerate. The reviewers have been prompt and regular. In particular the help that I have been constantly receiving from Dr. H. L. Dey, Mr. J. K. Mehta, Mr. K. L. Govil and Dr. P. S. Loknathan has been great and without reserve. It will be presumptuous on my part to dilate on the help—abundant help—given by the members of the Departments of Economics and Commerce of my University even at their very great inconvenience, for I know I have been exacting even to a fault, but without their kind co-operation it was impossible to do anything; and for this I thank them.

University of Allahabad
APRIL 24, 1945

A. N. Agarwala
MANAGING EDITOR

NOTICES TO MEMBERS

The 29th Annual Conference of the Indian Economic Association will be held in December 1946 in Karachi. The exact dates of the Conference will be announced later. The subjects selected for discussion at the Conference are as follows :—

1. The theory of location of industries.
2. The land systems in India.
3. Tax structure in India.

The current topics will be decided later on.

Members are requested to send copies of their papers by the 15th September 1946 at the latest, with summaries not exceeding 500 words direct to the President, Prof. S.K. Rudra, Lucknow, and he will inform them about the acceptance of the papers.

In view of the shortage of paper members are requested to see that their papers including the summaries should not exceed 8 pages.

It will be very much appreciated if members, whose papers are ready earlier, send these much in advance of the last date. This will greatly help in printing the Conference Number in time.

ANWAR IQBAL QURESHI
Hon. Secretary & Treasurer

Members of the Indian Economic Association are requested to kindly note that all communications regarding the Journal should be ordinarily addressed to the Managing Editor, *Indian Journal of Economics,* Department of Economics and Commerce, University of Allahabad, and not to the Secretary of the Association, as this will facilitate early compliance.

The subscription of all the members for the year 1945-46 expires at the end of June 1946.

Members are requested to send their subscription of Rs.12 by money order to me before that date. In case a cheque is sent it must include six annas extra for collection charges, which have been recently raised by our Bankers. If the subscription is not received by the end of June, and members do not inform

me of their intention to discontinue their membership, the July issue will be sent to them per V. P. P.

ANWAR IQBAL QURESHI
Hon. Secy. & Treasurer

The Secretary wishes to thank those few members who were good enough to send him a brief account of the speeches made by them at the Lahore session of the Indian Economic Conference. But he very much regrets that in view of the very poor response from other members it has not been possible to publish these in the *Journal*.

ANWAR IQBAL QURESHI
Honorary Secretary